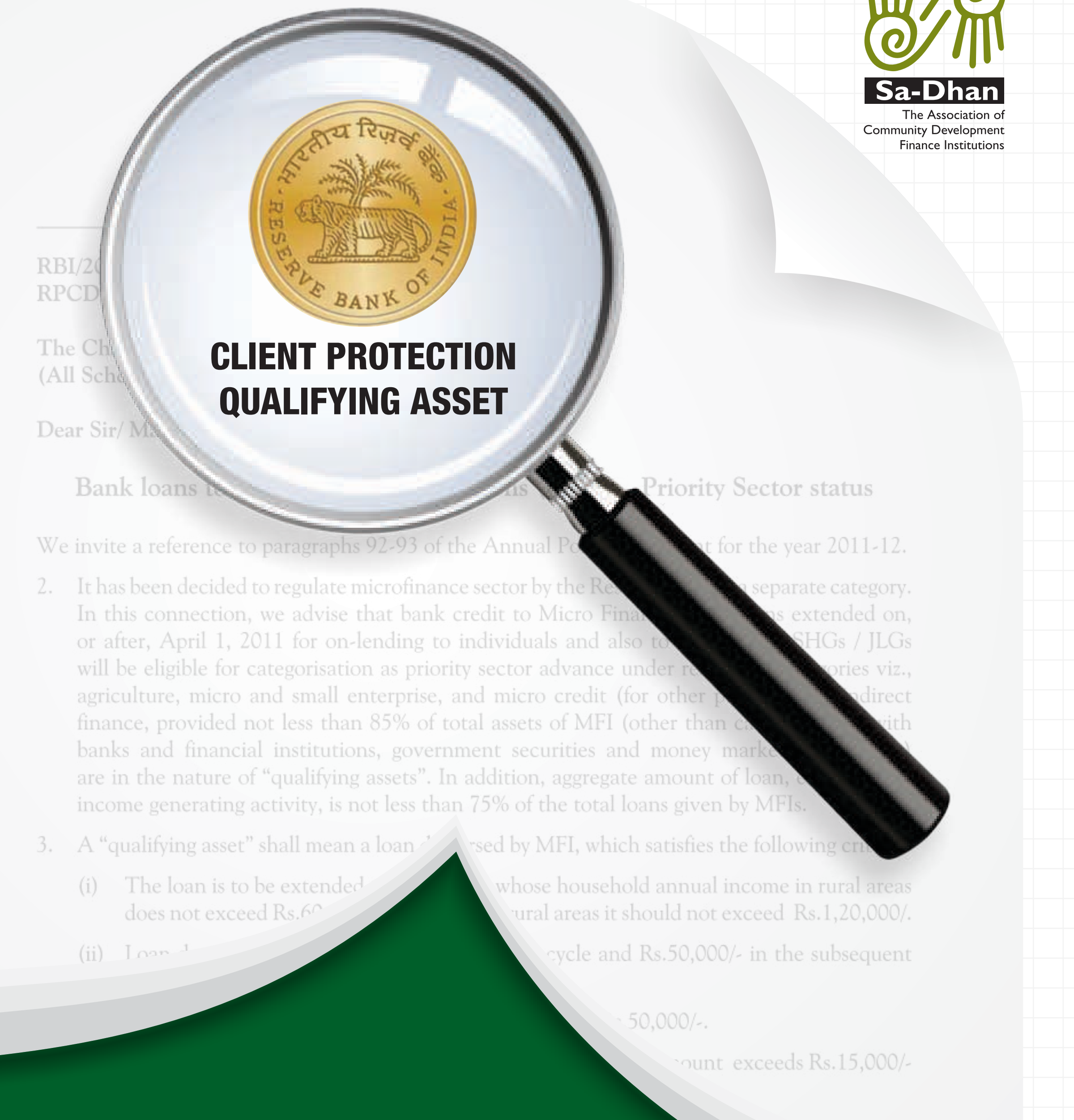
Sa-Dhan
The Association of
Community Development
Finance Institutions



Hand Book for MFIs on RBI Regulation & its Compliance

Mission of Sa-Dhan

"To build the field of community development finance in India, to help its members and associate institutions to better serve low income households, particularly women, in both rural and urban India, in their quest for establishing stable livelihoods and improving their quality of life".

Effective microfinance is to be realized not in terms of the speed of growth, but in the creation of long term relationship between the MFI and client, between communities and communities. Basically, banking is relationship, not mere finance. Relationship continued relationship, relationship of trust. It is through this relationship that the poor women like any other client, gains a sense of security and confidence to plan to take risk in her life and livelihood. And eventually develops a stable livelihood.

Smt. Ela R Bhatt
Founder, Sewa Bank

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Preface

Reserve Bank of India, as the regulator of the banking and financial services in India, introduced regulatory guidelines to the Microfinance Institutions (MFIs) to make their functions robust and client-friendly. The RBI notifications pertained to guidelines for MFI Assets-Qualifying Assets, pricing, purpose of loan, entry point norms, asset classification and provisioning, transparency in interest rates, Corporate Governance, improvement of efficiency, necessity for certification by MFI auditors / Chartered Accountants on compliance level etc. The notification implied that non-compliance with the directives shall invite penal provisions under the RBI Act, 1934. In a separate directive given by RBI to the banks, it advised the latter to ensure that the MFIs intending to borrow funds under priority sector advances scheme adhere to norms stated in the RBI notification. Banks now have the mandate to ensure their MFI-borrowers follow the guidelines.

The purpose of this Hand Book is to provide a ready reference to MFIs and their auditors to comply with the directions of the RBI and certify the compliance thereof. All types of MFIs are expected to follow the regulation in order to get priority sector advances from the banks. The applicability of different regulations for different types of MFIs has also been indicated in the book.

Besides, the Microfinance bill is before the parliament. This will have implications on MFIs and organisations in the form of trusts and societies who are purported to be brought under RBI supervision as envisaged in the bill. This handbook would be suitably amended as per the provisions of Microfinance Act, when enacted.

SIDBI, being the leading supporter of the microfinance sector, has got mandate to take important initiatives in lending to, ensuring regulatory compliance by MFIs. Accordingly, SIDBI convenes the Lenders Forum of Banks lending to MFIs. As part of its concern to ensure implementation of RBI regulation, in letter and spirit, SIDBI supports Sa-Dhan for capacity building workshops and communication tools on RBI regulation targeting MFIs and their auditors. Sa-Dhan has held three regional workshops on RBI regulation across the country under the project. This handbook is brought out as part of the project initiatives.

We profusely thank SIDBI for the generous support for this project as well as the other sector building initiatives of Sa-Dhan.

The Hand Book team deserves due appreciation. A team led by K.Natarajan with his colleagues Ardhendu Nandi, P.M.Kamalesh and A.Krishna Reddy collected primary information from MFIs, collated discussion points from Sa-Dhan RBI

regulation workshops, perused RBI documents to compile the hand book. Special thanks to Mr. Ram Sowmithri, consultant, who drafted the first draft which enabled the team to build on and bring out this hand book.

A team of Sa-Dhan members, Mr. Suresh K. Krishna, Mr. Prakash Sundaram, Mr. Mukul Jaiswal and Dr. Avinash Chander, ICAI Research Director, Mr. R. Prabha, Ex-Board member Sa-Dhan offered advices to the team on the technical aspects of the hand book. We owe them our due gratitude.

The hand book is just an attempt to enumerate RBI norms, compile different notifications, discuss their meaning and implications, and offer practical tips for MFIs and their auditors for better compliance with the regulation / certification thereof.

Being the first version, the hand book, in all likelihood, may have scope for improvement and refinement. We request the MFIs, stakeholders and readers to offer critical feedback to bring out improved edition as we go forward.

Mathew Titus
Executive Director

July 2013
New Delhi

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2	BPL	Below Poverty Line
3	CA	Chartered Accountant
4	CGT	Compulsory Group Training
5	CHI	Cashpor Housing Index
6	CIB	Credit Information Bureau
7	COCA	Code of Conduct Assessment
8	COR	Certificate of Registration
9	COR	Certificate of Registration
10	CRAR	Capital to Risk Asset Ratio
11	DNBS	Department of Non Banking Supervision
12	DPN	Demand Promissory Note
13	EIR	Effective Interest Rate
14	FCRA	Foreign Contributions Regulations Act
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16	GRT	Group Recognition Test
17	HO	Head Office
18	HR	Human Resources
19	IGA	Income Generating Activity
20	IRDA	Insurance Regulatory and Development Authority
21	IRR	Internal Rate of Return
22	JLG	Joint Liability Group
23	KYC	Know Your Customer
24	MFIs	Microfinance Institutions
25	MIS	Management Information System
26	NBFC	Non-Banking Finance Company
27	NE	North Eastern
28	NGO	Non-Governmental Organization
29	NoF	Net Owned Fund
30	PDC	Post Dated Cheques
31	PPI	Progress Out of Poverty Index
32	RBI	Reserve Bank of India
33	RPCD	Rural Planning and Credit Department
34	RR	Revaluation Reserves
35	SHGs	Self- Help Group
36	SIDBI	Small Industries Development Bank of India
37	SRO	Self- Regulatory Organisation
38	TRWA	Total Risk Weighted Assets

Glossary

Annual Percentage Rate (APR)

The annual rate that is charged for borrowing, expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan. This includes any fees or additional costs associated with the transaction.

Below Poverty Line (BPL)

Below Poverty Line is an economic benchmark and poverty threshold used by the government of India to indicate economic disadvantage and to identify individuals and households in need of government assistance and aid.

Capital Adequacy

Capital Adequacy is the means of measuring the solvency level of MFIs which is an important indicator of risk bearing ability of the entities. It is the proportion of the capital/own fund held by an MFI against its total asset

Compulsory Group Training (CGT)

The CGT is the first formal interaction (five hours spread over three to five days) between prospective clients and an MFI.

Credit Information Bureau (CIB)

Credit Information Bureau is the depository of credit information about the clients of its member financial institutions and it makes available, on demand, the credit history of the clients.

Financial Inclusion

Financial Inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society.

Financial Solvency

Financial Solvency here refers to financial strength of an MFI. Solvency among MFIs indicates the financial risk bearing ability of the entities, especially in the event of unforeseen shocks leading to financial loss.

Group Recognition Test (GRT)

The Term GRT is Group Review Test which is normally done after CGT.

Income Generating Activity (IGA)

Income generating activity is a small-scale project that creates an income source to individual beneficiaries. It aims at creating opportunities for the use of resources among displaced people in a meaningful way and with the objective of becoming less dependent, more self-reliant and able to care for the family.

Interest Rate Cap

Interest Rate Cap refers to the interest rate ceiling of 26 percent fixed by RBI chargeable by MFIs from the loan lent to their clients.

Internal Rate of Return (IRR)

The Internal Rate of Return (IRR) is a rate of return used in capital budgeting to measure and compare the profitability of investments. It is also called the discounted cash flow rate of return or simply the rate of return.

Know Your Customer (KYC)

KYC term used for customer identification process. It involves making reasonable efforts to determine true identity and beneficial ownership of accounts, source of funds, the nature of customer's business, reasonableness of operations in the account in relation to the customer's business, etc which in turn helps the MFIs to manage their risks prudently.

Margin

Margin refers to the difference between the finance cost on portfolio and the total yield on portfolio. This term is analogous to the concept of Net Interest Margin (NIM) widely used in banking parlance. Margin Cap refers to the ceiling of Margin of 12 percent fixed by RBI.

Malegam Committee

Malegam Committee is the RBI Board Sub- committee, under the chairmanship of Y.H.Malegam, which investigated the issues affecting the microfinance sector and submitted report to the RBI in 2011

Net Owned Fund (NoF)

NoF means Paid up capital +Reserve and Surplus (excluding revaluation reserve)+Long term liabilities (to be paid after one year) less Trading investment- Fictititous assets (like preliminary exp., debit bal of P & L.)

Operating Cost

Ratio of staff, travel, administration costs, other overheads and depreciation charges of the MFIs (non-financial costs) to the average loan portfolio during a year

Qualifying Assets

Qualifying Assets are loan portfolios created by MFIs adhering to certain conditions to make the MFIs eligible to be called as MFIs and to raise loans from banks under Priority Sector Advances Scheme (as per recent RBI norms).

Self Help Groups (SHGs)

SHGs refer to groups of 10-12 women coming together to form a semi formal community based institution to meet their common financial and social needs. SHGs are linked to mainstream banks for depositing surplus savings of the SHGs and to obtain loans (popularly known as SHG Bank Linkage Programme –SBLP)

Self Regulatory Organization (SRO)

A self-regulatory organization (SRO) is an organization that exercises some degree of regulatory authority over an industry or profession. The regulatory authority could be applied in addition to some form of government regulation, or it could fill the vacuum of an absence of government oversight and regulation. The ability of an SRO to exercise regulatory authority does not necessarily derive from a grant of authority from the government.

Yield

Yield represents total income from microcredit operation-Interest income, processing fee/ service charge – earned out of average loan portfolio outstanding. It does not, include investment income. It is a good proxy / surrogate for loan interest rate.

Layout of the Hand Book

MFIs are expected to understand the implication of each component of the regulation and incorporate as part of their organizational system for adoption. The content structure of this hand book is designed in a way to enable MFIs and their auditors comprehend the rationale of each piece of the regulation, its meaning, and the recommended method of complying with it (See the table below).

Part A of the hand book puts the context of RBI regulation in perspective.

Part B deals with the regulatory components one by one. It unveils each regulatory component under four distinct elements. The first is the regulatory piece itself *(The Stipulation)*, the second is possible rationale behind the regulation *(Rationale[1])*, the third is possible interpretations by MFIs *(Interpretations)* while the last is suggested ways of adhering to the norm by MFIs *(Compliance Strategy)*. In addition to the four elements above, a brief note on how any external agency / Chartered Accountant could verify adherence of the regulation for certification or reporting purposes is given at the end.

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Part C touches upon the role of key stakeholders in ensuring regulatory compliance – of Auditors, of Banks and of Industry Association (Sa-Dhan)

The handbook also carries, as annexures, connected circulars from Reserve Bank, recommended templates, specimens, formats, etc.

[1] 'Rationale' under each regulation quoted in Part B of this handbook is not exhaustive nor it reflects the original intention of RBI to bring the corresponding stipulation. It merely indicates, as perceived by Hand Book Team, the possible reasons behind the regulation in the present context. The purpose of Rationale is to bring out the spirit of the regulatory piece to enable MFIs to adopt it holistically.

Part A: Context and Applicability of RBI Regulation[2]

Microfinance service provided by Microfinance Institutions (MFIs) in India had largely been out of the domain of systematic regulation till 2010. This was the case despite Sa-Dhan's earnest appeals to RBI to regulate the sector since the year 2000. Now, series of historic events which happened in the sector prompted the banking regulator to intervene and regulate MFIs for orderly growth of the sector.

At the beginning it constituted Malegam Committee[3] to find out the issues affecting the sector. Accepting most of the recommendations of the committee, RBI issued notifications governing the MFIs functioning in the country. The connected RBI circulars (3 May 2011, 2 December 2011, 3 August 2012) carrying the notifications are given in Annexures1,2,3. In addition, RBI issued revised circular (dt.18 February 2013) on Fair Practices Code for NBFC MFIs (Annexure 4).

At the advent of regulation, there were estimated 1000 MFIs including around 50 Non Banking Finance Company (NBFC) MFIs. The first regulatory piece was intended to govern the Priority Sector status of bank funds lent to MFIs. All forms of MFIs depended on banks for over 75 per cent of their lendable resources. Thus, the first round of RBI regulation covered all forms of MFIs including Non-NBFC MFIs. The principal areas for which directives given were: MFIs Qualifying Asset, Income Generation Loans, Pricing and Certification procedure, which all became prerequisites for priority sector status.

Later, RBI recognized a separate category of MFI, namely NBFC-MFI[4] and issued a set of regulation for them in addition to priority sector conditions. They were on matters of Entry Point Norm, Prudential Norm, Fair Practices in Lending, Avoidance of Multiple lending and Corporate Governance. Of the above, Entry Point Norm, Prudential Norm are applicable exclusively for NBFC-MFIs. Others may be for all MFIs. The applicability of regulation to different MFIs are given in Table 1.

[2] RBI Regulation in this hand book primarily refers to the guidelines announced through series of RBI circulars since 3 May 2011, after Malegam Committe recommendations, to regulate the operations of MFIs.

[3] It is a RBI board sub – committee headed by Y.H.Malegam and it submitted its report in 2011.

[4] NBFC-MFIs are non-Deposit taking NBFCs requiring minimum Net Owned Fund of Rs. 5 crore (Rs. 2 Core for NE region) and not less than 85 per cent of their assets are of qualifying assets. They need to follow Prudential Norms as well as other norms governing MFIs.

Table 1. Applicability of RBI Regulation to Different MFIs

Type of MFI	Applicable RBI regulation	Relevant Pages in the Handbook
Non–NBFC MFIs	**Compulsory :** Qualifying Asset, Income Generation Loan, Pricing & Certification by Chartered Accountants (All Priority Sector Condition[5]).	4 - 23
	Preferable: Fair Practices in Lending , Multiple Lending avoidance, and Corporate Governance	29 - 39
NBFC -MFIs	**All Compulsory :** ALL the Above +	---
	Entry Point Norm (Net Owned Fund) and Prudential Norm (Capital Adequacy, Asset Classification and Provisioning) +	23 - 28
	Fair Practices Code	Annexure 4

Recognition of NBFC-MFIs entailed all NBFCs operating as MFIs were required to convert (reregister) themselves as NBFC-MFIs with Regional offices of RBI with effect from 1 April 2012 and obtain Certificate of Registration (COR) to continue to carry on the business of microfinance. RBI checklist for MFI registration/periodical returns to RBI is given in Annexure 5. The MFIs are advised to look at RBI website for comprehensive registration procedure.

The NBFCs, not fulfilling the conditions of NBFC-MFIs or not wanting to convert themselves into NBFC-MFI, will have to operate as NBFCs. Such NBFCs can not extend loans to microfinance sector beyond 10 per cent of its total assets in aggregation.

[5] Priority Sector Advances Condition was notified through RBI's first regulatory circular dt.3 May 2011. (No RPCD.CO.Plan BC.66/04.09.01/2010-11).

Part B: RBI Regulation and Its Adoption by MFIs

RBI regulation covers multivarious aspects of MFI operation. Broadly, the regulation pertains to Qualifying Asset, Income Generation Loans, Pricing, Entry Point Norm and Prudential Norm, Fair Practices in Lending, Avoidance of Multiple Lending and Corporate Governance. The regulations are discussed under different sections.

Section 1: Qualifying Asset

RBI has notified that bank lending to MFIs will carry Priority Sector tag, only when 85[6] per cent of MFIs total assets (other than cash, balances with banks and financial institutions, govt.securities and money market instruments) are of 'Qualifying Asset'.

This regulation is applicable to all MFIs (NBFC-MFIs and other MFIs) enjoying the priority sector advances from banks.

"Qualifying Asset" shall mean a loan disbursed by MFI, which satisfies the following criteria:

1. The loan is to be extended to a borrower whose household annual income in rural areas does not exceed Rs.60,000/- while for non-rural areas it should not exceed Rs.1,20,000/-.
2. Loan does not exceed Rs.35,000/- in the first cycle and Rs.50,000/- in the subsequent cycles.
3. Total indebtedness of the borrower does not exceed Rs.50,000/-.
4. Tenure of loan is not less than 24 months when loan amount exceeds Rs.15,000/- with right to borrower of prepayment without penalty.
5. The loan is without collateral.
6. Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

1.1 The Stipulation

The loan is to be extended to a borrower whose household[7] annual income in rural areas does not exceed Rs.60,000/- while for non-rural areas it should not exceed Rs.1,20,000/-.

[6] The income of an NBFC –MFI derived from the remaining 15 per cent of assets shall be in accordance with the regulation specified in that behalf

[7] Household in general parlance may refer to all the members of a family sharing the same hearth (in kitchen)

1.1.1 Rationale:

This clause has to be read in the context of the Government's concern for using financial inclusion as a means for ensuring inclusive growth. The general perception is that the poorest of the poor, say bottom two quartiles below the so-called poverty line, do not constitute the typical MFI clients as they are seen more as the target group for government's welfare programmes rather than as creditworthy borrowers. The MFIs have also been accused of targeting only the economically active among the poor. In other words, typical MFI borrowers are stated to be those having higher income and defined cash flow and hence perceived to be less risky.

The Malegam Committee took note of this trend and suggested income restriction to make the MFIs to serve the really needy. The RBI accepted this recommendation.

Box1: For the Regulator's Attention:
Ceiling on Annual Household Income

The household income clause is liable for multiple interpretations and hence may be reviewed.To cite an example, there can be certain households where the income per se may be higher than the limits prescribed in the clause but there may be other (risk) factors making these households to deserve more for financial assistance compared to the poorer households. Some of the possible scenarios are listed below:

- there are more than one family member with chronic or acute illness which requires continuous treatment.
- the family is woman-headed due to her husband deserting the family or migrating.
- the head of the household is an alcoholic or drug addict.
- the head of the household needs to borrow money from moneylenders, friends, relatives and neighbours at regular intervals.

In the above cases, considering the economic criterion alone for microfinance may not be relevant.

The question of targeting has to be answered keeping in view the crying need for financial inclusion and statistics indicating dwindling average per capita income. The regulator may commission a study on how development economists, sociologists and progressive NGOs describe the risk factors affecting the poor . The study results may be used to fix criteria for target households for microfinance.

1.1.2 Interpretations:

There has not been uniform definition on Rural and Urban in the Indian context. As per census data, urban area is with: i) a minimum population of 5,000; ii) at least 75 per cent of male working population engaged in non-agricultural pursuits; and iii) a density of population of at least 400 per sq. km. (1,000 per sq. mile).

On the other hand, based on the size of the population, RBI classified a centre as rural, semi-urban, urban, or metropolitan as under:

i. Rural: population less than 10,000

ii. Semi-Urban: 10,000 and above and less than 1 lakh

iii. Urban: 1 lakh and above and less than 10 lakh

iv. Metropolitan: 10 lakh and above

Also see Box 1 for understanding the dilemma in household income.

The MFIs may follow the RBI definition for reporting purposes.

1.1.3 Compliance Strategy

The MFIs need to make efforts to independently verify the total annual family income of the borrower households. Further they need to factor in the weightage for the asset size or the social status of the family which would result in a more balanced and realistic reflection of the income level of the household. MFIs need to incorporate the client screening using household income ceiling as part of the system of group formation and training. The field officers shall communicate to all on the group membership, loan eligibility,etc,. at the time of village survey, village meetings, Compulsory Group Training (CGT) and Group Recognition Test (GRT).

The Loan application form will have to be redesigned to have provisions for entries on household income and expense as well as net income. The net income per month/ year so arrived may be converted into annual household income to decide on the eligibility of the client for the loan from the MFI. A suggested template of loan application form with columns for household income estimate is given in Annexure 8.

The loan officer recommending the loan to the group/ individual has to undertake household visit to verify the correctness of the entries in the loan applications and certify accordingly. He can look for additional proof of applicants' income like BPL Card, ration card with annual income stated on them.

In addition, the loan officer may pose appropriate questions to the household members to elicit information to judge the poverty/income level of the household. Following are relevant questions and some guidance for making estimates of poverty level.

i. Does the family have only one earning member?

ii. Is it a woman-headed family?

iii. Is the weekly average income/wages earned by the family less than Rs. 1250 (if it is a rural family) or is it less than Rs. 2500 (if it is an urban or suburban family) and is it insufficient for reasonable living?

iv. Are there illiterate members in the family?

v. Are there members with genetic/prolonged/serious health issues in the family?

vi. Are there children in the family who do not go to school?

vii. Is there a drug addict or an alcoholic in the family?

viii. Does the house /dwelling have no water connection inside the house?

ix. Do they eat less than two meals a day?

x. Do they belong to an economically backward community/tribe?

xi. In case of financial need do they often borrow from money-lender, relatives and friends?

If answer is 'yes' in more than five of the above cases, the family can be considered as belonging to the low income category or one deserving microfinance loan. To ensure accountability and accuracy a borrower profile also may be recorded with data under parameters noted hereunder:

Name of the village, Name of the client, Age, Address, Date of joining, Contact Number, Total family members, age of family members, education, assets, occupation,family income, total savings, sanitary facility, Loan outstanding (with SHG, Bank, Society, Others), type of habitation (Hut, Tiles, Pucca – RCC), etc.

The loan officers may obtain self-declaration from the borrowers on their household income. This has been suggested by RBI too. This document may be complementary evidence to the loan officers' certificate in the loan files. However, this technique could not be the MFIs' sole means of establishing the household income for ever. MFIs shall endeavour to adopt credit Bureau reports as they go forward.

The other proxy means of assessing client level poverty adopted by MFIs are narrated in Box 2.

Box 2. Proxy Measure of Household Income / Poverty

Cashpor Housing Index

Cashpor Microcredit is a leading MFI and Sa-Dhan member operating in western Uttar Pradesh and Bihar. They identify their target clients and assess their poverty level using the type of housing shelter in which the clients reside at the time applying for loan. They use Cashpor Housing Index (CHI) for that purpose. The CHI and the scale for estimate of poverty are given in Annexure 13.

Progress Out of Poverty Index (PPI)

Many Sa-Dhan members use PPI, advocated by Grameen Foundation, to gauge the poverty level of their clients both at the entry level and at different stages of availing their services. The PPI index is also shown in the above annexure. As per the index, households that score 34 or less points will have 93.7 % likelihood of having an income of less than USD 2 per person per day (Purchasing Power Parity), the international poverty line that could be the target group for MFIs.

1.2 Stipulation

Loan amount does not exceed Rs. 35,000 in the first cycle and Rs. 50,000 in subsequent cycles.

1.2.1 Rationale:

This might be to put a ceiling on the total loan amount given to the new borrowers and thereby reducing the total indebtedness of the borrower. The loan ceiling might also be to encourage small business undertaken by low income clients. This might also to discourage MFIs disbursing loans with fast business growth strategy.

1.2.2 Interpretations:

The meaning of the stipulation is clear.

1.2.3 Compliance Strategy:

This direction is very easy to adopt by MFIs. The MFI policy and connected guidelines may be suitably amended, if necessary, to ensure that the loan size in the first loan cycle does not exceed Rs.35000. The MFI can easily verify adherence of this condition with the help of the receipts and vouchers available with the branches. Besides, the MIS can help track the credit history of the borrower in terms of the number and size of loans, repayment history, loan outstanding etc.

In fact, the MFIs must not have any problems in complying with this. The representatives from Sa-Dhan verified select members' adherence to this condition.

The members are already adopting the norm scrupulously and in fact they are lending below the stated limit as of now.

1.3 The Stipulation

Total indebtedness of the borrower does not exceed Rs. 50,000

1.3.1 Rationale:

Obvious reason for this stipulation would be to curtail overall liability of the poor borrower so that he/she would service the loan without difficulty. There had been accusations against the microloan providers of indulging in multiple lending and over lending leading to stress on the borrowers. Limiting the total indebtedness of the borrower from different sources would be the simplistic way of avoiding the borrower stress. This stipulation is analogous to the other stipulation of RBI on limits of annual household income discussed earlier.

1.3.2 Interpretations:

There may be ambiguity on the part of MFIs on right method of assessing the indebtedness. The complexity in assessing the existing indebtedness stems from the verifiability of the debt of the borrower. The borrowers are understandably unbanked people having no financial track record. Absence of track record and documents makes it difficult to assess the debt. Moreover, the borrowers may be indebted to relatives and friends for which there would be no documentary proof. In extreme and rare cases, there may actually be incidences of bonded labor which carry no documentary evidence.

1.3.3 Compliance strategy:

MFI field officers' local enquiry and recording of the socio-economic profile of the borrower would help assess the indebtedness. Household cash flow analysis will also help.

Technology based solutions has become handy now. MFIs have started using the Credit Information Bureau[8] (CIB) data to assess the existing indebtedness of applicant borrowers. As per Section 15 of Credit Information Companies (Regulation) Act, 2005 and RBI guideline to MFIs, all financial institutions are mandated to become member of at least one credit bureau. MFIs in India have already begun to enter agreement with select bureaus, report data and make verification posts with bureaus to assess the credentials of applicant borrowers.

The step by step procedure in enrolling into credit bureau and major clauses in a typical CIB agreement etc. are given in Annexure 12.

The credit bureau checks may not be a foolproof mechanism to assess the total indebtedness of the borrower. In India, institutional credit verification culture is

[8] Also understood as Credit Referencing Agency and Credit Intelligence Firm

yet to percolate in a way to capture borrower's liabilities to, say, Self Help Groups, Cooperatives and other agencies. Borrowers' liability to their friends and relatives too are out of any institutional domain.

Box 3. For the Regulator's Attention: Mandate to SHGs to Report to CIB

Reserve Bank and Government agencies need to urge all institutional credit providers including SHGs and their Govt.promoters to take efforts to come under credit bureau system. Similarly, Government's insistence on 'aadhar'- number- based lending will pave way for avoiding multiple lending/ overindebtedness in the long run.

RBI has allowed MFIs to use self-declaration from the clients as proof of existing indebtedness of the clients, till the time the CIB system becomes robust.

1.4 The Stipulation

Tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty.

1.4.1 Rationale:

Loan repayment liability of a borrower is the function of three factors viz., total loan amount, loan tenure and interest rate chargeable. RBI has stipulated ceiling related to all these factors. Stipulation on total indebtedness has already been discussed. Interest rate would be dealt with in the subsequent section.

Longer loan tenure, as per the RBI norm, will reduce the repayment liability for a given installment.

1.4.2 Interpretations:

The condition is unambiguous and is easy to understand and adopt.

1.4.3 Compliance Strategy:

Adopting this condition is equally as straight-forward and easy. The condition may be adhered at the time of filling up of the loan application itself. The trained-loan officer may fix the tenor as 24 months as and when the loan applied for exceeds Rs.15000. The MIS is another tool which can be set to disallow entry of loan tenure below 24 months when the corresponding loan amount is in excess of Rs.15000. Similarly, MIS may help generate report to track the loan amount and the loan period of all loans.

Any outsider auditing compliance, including the Chartered Accountant, may run the MIS to generate reports indicating the compliance position. Loan card is fairly simple and straightforward document available at the hands of the borrowers to ensure /verify compliance. The borrowers educated well on the RBI conditions will help MFI to point out any deviation noted on the Loan Card.

Box 4. For the Regulator's Attention: Tenor of Loan

The minimum 'Tenor' condition for loan over Rs.15000 may be reviewed.

MFIs experience shows that most of the borrowers do not want two year tenure for loan size even up to Rs.25000.

Many borrowers want to repay the loan size up to Rs.30000 within a year through higher instalment amount.

For borrowers taking loans for agriculture, animal husbandry,etc., having repaying tenure fixed is not appropriate to their cash flow pattern.

1.5 The Stipulation

The loan is to be extended without collateral

1.5.1.Rationale:

MFIs obviously are here to cater to the credit needs of unbanked population who lack collateral, among other things, to get loans from mainstream banks. Collateral-free loan service is the hallmark of MFIs. Insistence on collateral deprives the resource poor individuals of the much needed credit support. Besides, loan with collateral is obviously directed at relatively non –poor, which is against the spirit of microloan. Loans contracted, involving collateral, offers little chance for the borrower to negotiate with the lender in the event of unforeseen circumstance rendering him/ her unable to repay the loan.

1.5.2.Interpretations:

Please see Box 5.

1.5.3 Compliance Strategy:

For MFIs conscious of avoiding collateral security, it is very simple norm to comply with. Systematic training to loan officers and field staff on what constitutes collateral and the ways to avoid would help in the matter.

Any third party including Chartered Accountant could make discreet enquiries with clients and scrutinize the loan documents to verify the compliance.

Box 5. What is Collateral

According to Accion (an international NGO), collateral is an asset pledged by a borrower to secure a loan, which can be repossessed in the case of default. In the microfinance context, collateral can vary from fixed assets (a car, a sewing machine) to cross-guarantees from peers.

In banking parlance, collateral security is creation of charge over any asset other than the one created out of the loan so borrowed. In the event of the borrower being unable to repay the loan, the lender realizes his/her loan by liquidating the collateral asset through appropriate legal process. In this context, creation of charge over assets created directly out of the loan proceeds is Primary Security and not Collateral Security.

In practice, lenders secure the repayment of their loan through different means without apparently labeling the charge as collateral.

Some of the common methods the lender may adopt include:

i. Insisting on Margin Money / subscription to share of (lender's) related company.

ii. Getting Physical custody of documents relating to land

iii. Creating charge over assets purchased out of the loan amount (Primary Security).

iv. Physical custody of Bank Fixed Deposit certificate (of an SHG to which the borrower belongs), driving licence, ration card, etc

All these would be considered as collateral in the light of the spirit of RBI regulation.

Similarly, banks and MFIs obtain Post Dated Cheques (PDCs) from customers ensuring repayment convenience. The cheques are realized by presenting to the banks concerned with explicit consent of the borrower who issued the cheques. This may be viewed as collateral in effect when they are used to intimidate the borrower of law suit when his /her banker is not in a position to honour the cheque for want of sufficient balance in the account. The tactic of the lender using cheques to force repayment affects the social standing of the borrowers, which may be very sensitive especially in villages . In addition, PDCs imply the type of target group of the MFIs. MFIs are apparently target unbanked people. Borrowers, who could offer PDCs, would already be financial included. PDCs, therefore, may be construed as unacceptable practice in the light of the RBI financial inclusion agenda.

1.6 The Stipulation:

Loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.

1.6.1 Rationale:

As described in the previous section, the loan repayment liability to the borrower is the function of loan amount, tenor and interest rate. The repayment liability is also influenced by the borrowers' cash flow and cash cycle / gestation period of activity funded by the MFI. The MFI imposing the repayment periodicity convenient to their system on the borrower may cause undue repayment pressure on the latter. The norm suggests following client- centric approach of fixing the periodicity.

1.6.2 Interpretations :

The heterogeneity of group members may entail different repayment schedules for different groups leading to escalated recovery cost for MFI. The solution to the issue may be to ensure that the borrowers engaged in similar economic activity join together to form groups.

1.6.3 Compliance Strategy:

Obviously, encouraging homogeneous members engaged in similar economic activity would encourage clients of a group to choose the same repayment schedule. This will avert the multiple recovery visits to the same group otherwise necessitated when varying repayment options are exercised by members.

The loan application shall have repayment options- weekly, fortnightly and monthly- and the applicants can choose the periodicity. The homogeneous group will naturally opt for uniform periodicity. The application form, with borrower repayment option exercised, is the record for compliance of the RBI norm.

The MFI may modify their MIS suitably to accommodate the repayment choice made by individual borrowers.

The certifying agency may cross–check the compliance by looking at the choice made by borrowers in sample applications, corroborating the same by oral confirmation given by those borrowers through personal interviews undertaken. The agency may also check whether the borrower was aware of the choice available, made conscious choice, understood the implications of the choice vis-a-vis her ability to service the loan, etc.

To conclude on the Qualifying Asset norm, it may be reiterated that MFIs and their bankers ensuring that 85 per cent of MFIs assets being Qualifying in nature will enable legitimate bank funding to MFIs.

Section 2: Income Generation Loans

This is the other criterion for Priority Sector advances to MFIs. The regulation is explained in this section.

2.1 The Stipulation

Aggregate amount of loans, given for income generation, is not less than 70 per cent of the total loans given by the MFIs

2.1.1 Rationale:

The Microloans are designed to help the poor borrower to help them to move out of poverty. The borrowers are expected to use the loan amount judiciously to augment their income. Any diversion of the loan amount to unproductive purpose would defeat the very purpose of microloan. The loans, however, may be used for emergencies / purposes that would facilitate greater household earning later, say children education and the like.

There had been reported incidences of borrowers using the loan for acquisition of household assets, consumer goods, etc. Ghost borrowing, creation of fictitious accounts, etc. were the other undesirable practices reported in the MFI operation. There were cases of one/two member(s) of the group garnering loans meant for other members, borrowers using the proceeds to relend to some other members of the village, etc.

MFI loans, refinanced through banks' Priority Sector Advances Scheme, used for these purposes obviously need to be discouraged. Besides, the borrowers would get into debt trap if they borrow high cost microloan for non-income generating purposes.

The norm apparently upholds the high ideals of microloan, while giving elbowroom for offering non- income generating loans up to 30 percent of MFIs loan portfolio.

The regulator's concern to prime micro economy also would have given birth to this condition. While laying down this condition, the intent of the regulator could have been two-fold. The obvious one is that loan for productive purposes, either by way of production of goods or rendering of services, will lead to increased cash flow for the borrower household enabling it servicing the loan with ease. The other would be that it will add to the national economy by way of producing goods or rendering services. This obviously has underlying assumption that it creates employment at the micro enterprise level. This, in all likelihood, would inspire and motivate micro entrepreneurs setting up more microenterprises in the neighborhoods or villages.

2.1.2 Interpretations:

This is a condition binding the MFI to monitor and control at the overall portfolio level rather than at individual loans. To illustrate, if an MFI is disbursing loan amounting to Rs.100000, it has to ensure at least Rs.70,000 should be made available for productive purposes. The MFI may have lent to all groups in a village for non-income generating propositions of borrowers. Yet,the MFI, ensuring the minimum percentage to productive purpose at the aggregate portfolio level, would be considered to be compliant with the norm.

A word of caution. The stipulation is interpreted as a company level criterion. This means if an MFI has less than 70 per cent of this at the aggregate level, all qualifying individual loans also will become non-qualifying.

Another area of ambiguity may be: 70 per cent on the disbursed amount or the loan outstanding. However, the word aggregate in the stipulation may be construed to mean that the percentage is on the loan outstanding.

2.1.3 Compliance Strategy:

MFI shall commit to the RBI regulation by suitably amending their Credit Policy by a formal Board approval and instituting guidelines for credit appraisal for different end uses of loans among their clientele and post sanction verification.

Educating clients on responsible borrowing for productive use will pave way for spontaneous compliance of this norm in course of time. MFIs may use CGT and GRT forums to emphasize that the borrowers seek loans only for income generating purpose.

Loan application screening

The loan officers' appraisal of the loan purpose through group, household and local enquiries will absolutely ensure proper end use. The observation on the type of activity to be supported out of the loan sought will have to be recorded in the appraisal note.

The observations may include:

i. The type of household activities undertaken

ii. Capital requirement for any new initiative detailing the cost estimate of new capital goods/ raw material to be procured etc

iii. Assessment of working capital and credit gap in it for the existing activities.

Verification of Loan End Use

Post sanction verification of end use of loan should necessarily be part of the loan officers' assigned duties. The MFI field staff, after couple of weeks of loan disbursement, shall visit the borrowers' place and satisfy himself / herself that the loan had been put to use for the purpose intended. Verification of assets, scrutiny of goods bought for trade, inspection of the premises, etc are part of the exercise. The officer may certify the end use and the certificate may be clubbed with the loan documents.

The external agency verifying the satisfaction of the RBI norm, may scrutinize loan documents and meet borrowers on sample basis to cross- verify the end use of loans and make estimate of portfolio for income generating purposes.

Section 3 : Pricing

Pricing of MFI loan governs the priority sector sector status of bank loans given to MFIs. RBI has issued series of pricing guidelines as described one by one below.

3.1 The Stipulation

Margin Cap of 12[9] per cent is maintained

3.1.1 Rationale:

This is obviously to curtail the overall interest rate chargeable to loans. The microloans in general carry higher interest rate, because of labour-intensive process and inherent risk involved in lending to the poor without collateral. While the regulator recognising the importance of MFIs being sustainable, exhibited their concern for affordability of loans to the clients, by introducing this norm. At one point of time, MFIs had been blamed for charging exhorbitantly high interest rate aggravating the woes of client- household economics. The interest imposed on clients is determined by MFI operating cost, funding cost and surplus necessary to fund MFI growth and absorb risk. Critics of MFIs argued that higher operating cost arising out of inefficient operation of MFIs is passed on to the clients, keeping the MFI margin intact.

The margin cap may be intended to keep effective interest rate for the borrower low. It also encourages MFI to optimize their operating cost and fund cost.

3.1.2 Interpretations:

Margin is the rate difference, in percentage terms, between the total interest and other charges payable to average borrowing outstanding in the books of the MFI

[9] As of now, NBFC-MFIs with more than Rs.100 crore of assets will have Margin Cap of 10 per cent from 1 April 2014.

in a given period and the interest income received from the average loan portfolio held with clients for the same period. The processing fee is excluded in the margin calculation.The method of calculating margin has been illustrated in Box 7.

In essence, the income margin over and above the funding cost is capped at 12 per cent. The MFIs are expected to meet the operating cost and risk cost out of the margin left over. The MFIs need to reset the loan interest rate in a way to maintain the margin within the cap of 12 per cent. While this may ensure cap on interest rate payable by the borrowers, this renders difficulty to MFIs to track the cost and keep the margin low. The MFIs are supposed to calculate the margin every quarter and satisfy that the margin is within the cap. They also need to produce CA certificate to the banks and others to this effect.

In the whole thing, the rate of interest charged on non-qualifying loan is not relevant for margin calculation.Following are some hypothecatical examples for proper interpretation of the margin :

- MFI borrows at 14 per cent, lends qualifying loans at 24 per cent & Non-qualifying loans at 26 per cent. Margin is 10 per cent per cent.
- MFI borrows at 12 per cent, lends qualifying loans at 24 per cent & Non-qualifying loans at 26 per cent. Margin is 12 per cent.
- MFI borrows at 12 per cent, lends qualifying loans at 23 per cent & Non-qualifying loans at 20 per cent. Margin is 11 per cent.

3.1.3 Compliance Strategy:

Tracking the cost of fund, portfolio income, margin and readjusted interest rate are the principal means of ensuring compliance.

The MFI finance team may make suitable modification in the MIS to obtain real time data for a given period on the relevant parameters (Box 7) and do the arithmetics to display the margin percentage for that period.

In the event of margin exceeding the cap, the MFI may tweak the interest rate on the loan product to readjust the margin to the desired level in the ensuing period.

Box 6. For the Regulator's Attention : Margin Cap

Margin cap compels the MFIs to operate in the high density areas and neglect the remote and poorer regions. This cautious move of the MFIs would deprive financially excluded clients of the much needed credit service.

Box 7. Margin Computation

The following steps to be followed in Cost of Fund and Margin computation

(i) Average Outstanding Gross Loan Portfolio (GLP) on Qualified Assets (other than securitized/managed portfolio).

(ii) Outstanding Borrowing = Total Outstanding Borrowing less security deposit / Cash with banks

(iii) Income from Microfinance operation (Qualified Assets): Interest accrued on Qualified Assets

(iv) Financial Cost: (Expenses incurred towards bank interest payments + Processing fees including Service Tax + Stamp Duty charges.+ DD charges less Interest accrued on security deposit)

(v) % Cost of Fund = Financial Cost / Average Outstanding Borrowing *100 - [iv/ii * 100] %

(vi) % of Income from Average GLP on Qualified Assets = [iii/i * 100] %

(vii) Margin (%) = (vi minus v)

Note: This method of margin computation by MFIs has been endorsed by RBI (in a letter written to MFIN)

3.2 The Stipulation

Interest Rate Cap[10] of 26 per cent is maintained.

3.2.1 Rationale:

The obvious reason is to curtail the borrowing cost of the poor borrowers.

3.2.2 Interpretations:

The interest rate cap has since been removed by Department of Non Banking Supervision (DNBS) of RBI. The MFIs have, in line with the RBI circular dated 3rd August 2012, shifted their focus away from Interest rate cap and are endeavouring to adhere to margin cap. However, the RBI's directive to banks advising them to ensure RBI stipulation for priority sector lending to MFIs had gone from Rural Planning and and Credit Department (RPCD) of RBI . The RPCD apparently has not yet issued further circular intimating banks of the relaxation of the interest rate cap. Hence, the MFIs may still be answerable to banks on the matter in the event of banks invoking the erstwhile clause. In practice, however, the margin cap in vogue

[10] This has been relaxed by RBI (DNBS Dept.) for the benefit of NBFC-MFIs. However, matching relaxation notice is yet to be issued by RPCD Dept. for banks administering Priority sector advances.

takes care of the concerns of the regulator purported to be addressed by the interest rate cap.

As per the relaxed norm, the interest rate of loans may exceed 26 per cent provided the overall margin lies within the margin cap. The interest rate on an individual loan product may vary. The overall yield income of the total portfolio (excluding processing fee income) shall be within a limit, indicating the average interest rate of all loan products, lying below 26 per cent.

3.2.3 Compliance Strategy:

Staff training on the restrictions of interest rate and margin will help track and maintain the rate. As suggested in the previous sections, MIS may be redesigned to provide average portfolio income particulars for different intervals along with the other parameters noted in Margin Calculation (Box. 7) will help alter the rates suitably to comply with this norm. The finance team of the MFI may keep watch over the rate.

3.3 The Stipulation

The difference between two interest rates for a product shall not exceed 4 per cent in a year[11].

3.3.1 Rationale:

Very frequent change of interest rate and extent of variation in the rate for a product would adversely affect the repayment schedule and cash flow of the clients. Similarly, wide variation – more than 4 per cent – may indicate MFI's non professional Asset Liability Management, which is not desirable for over all stability of the organization.

3.3.2 Interpretations:

The Interest rate of individual loan products and the variation within a year[12] / period is to be tracked. This norm is quite clear for understanding and acting upon.

3.3.3 Compliance Strategy:

There may be a board approved policy for not changing interest rate of any given loan product widely in a way that the variation in a year does not exceed 4 per cent.

MIS may be reset to track the frequency and extent of change in the interest rate. The modified MIS may disallow change of interest when the intended change takes the variation beyond 4 per cent.

The field officers and clients may be informed of this norm. They would alert the operation team to avoid any deviant change.

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[11] The stipulation has been expanded a bit based on clarification obtained during Sa-Dhan meeting with RBI officials.
[12] This has been confirmed by RBI officials during Sa-Dhan meeting with RBI.

Any third party or Chartered Accountant could assess the interest rate variation through MIS, account statements and interaction with clients and staff.

3.4 The stipulation

The charges are confined only to:

i. Interest Charges

ii. Processing Fees of 1 per cent and

iii. Actual Insurance Premium charged by the insurance company

3.4.1 Rationale:

The MFIs had the practice of having multiple and miscellaneous charges on their loan products. Though such practice did not imply overcharging, it was so non-transparent to the effect that the real / effective interest rate payable by the poor borrowers was not clear. Every charge and its time of charging has bearing on the effective interest rate. The regulator, by stipulating the types of charges, has attempted to eliminate hidden charges or make the effective interest rate transparent.

3.4.1 Interpretations:

The regulation has no perceived ambiguity.

3.4.2 Compliance Strategy:

MFI Board resolution to the effect that the type of charges are in line with the norm would be the first step. Similarly, training the field officers and the clients on the norm would make the compliance spontaneous.

The stipulation is simple to adopt. Interest rate is to be stated in Annual Percentage Rate (APR). The method of arriving at APR and its relationship with Effective Rate of Interest rate is explained in Box 8.

The processing fee (1 per cent is equally simple to calculate and apply.

The actual cost of insurance and administrative charges (premium) fixed by the insurance company or Insurance Regulatory and Development Authority (IRDA) can just be adopted.

The loan application and the sanction letter may carry columns for showing all these charges. The borrowers, while accepting the terms of the sanction letter may point out any deviation from the stated norm.

Similarly, MIS, with suitable modification, would help calculate the charges eceivable as per the norm and the MFI may collect just that. The collection report may be generated, verified and filed for later reference.

BOX 8. Effective Interest Rate (EIR) & Annual Percentage Rate (APR)

Effective Interest rate is a tricky concept universally, as it is influenced by the 'Time Value of Money'. Even a minor shift in the time of transaction, will alter the Effective Rate. Technically , Effective Rate is Internal Rate of Return (IRR) which takes into account all streams of cash flow in a given loan transaction. Effective Interest Rate (EIR) and another analogous concept Annual Percentage Rate (APR) will have to be understood properly for transparent dealing with poor clients. The necessary formula and illustration on this are furnished below:

EIR = (1 + Periodic Interest Rate) ^ number of periods in a year - 1

EIR = (1+i) ^ n – 1

The term "Periodic" in "Periodic Interest Rate" refers to the time between installments (daily, weekly, biweekly, monthly, etc.). This is important to determine the "n" in the above formula: the number of periods in a year. For example, a loan product with weekly installments would have an "n" of 52 since there are 52 weeks in a year. A loan with monthly payments would have an "n" of 12.

CAUTION: so-called "monthly" payments may actually be payments every 28 days. (As in, "your payment falls due every fourth Thursday.") Whereas there are 12 months in a year, there are 13 periods of 28 days. This will affect the EIR calculation. Note the difference between the EIR and the easier-to-calculate Annual Percentage Rate (APR), the interest rate.

APR = the Periodic Interest Rate times the number of periods in a year

APR = i * n

Example:

Loan Amount	Frequency of Install-ments	Number of Install-ments	Periodic Interest Rate	Annual Percentage Rate (APR)	Effective Interest Rate
2,500	Weekly	8	1%	52%	67.77%
7,500	Weekly	8	1%	52%	67.77%
7,500	Weekly	12	1%	52%	67.77%
6000	Monthly	10	1%	12%	12.68%

Source: William R. Tucker (Bankakademie Micro Banking Competence Center: 5-6 September 2000)

The MFIs may design Execl-based tool to calculate the rates. Alternatively, they may use the Interest calculator posted on www. MFTransparency.org, which is devoted exclusively on pricing of microfinance loans.

The certifying agency / the Chartered Accountant may calculate the interest rate (APR) with the help of loan pass book entries of sample borrowers / their account statements. This will help identify deviations, if any. Similarly, scrutiny of receipt books, insurance certificates and cross-checking the same with the accounts of the borrowers will disclose relevant information to decide on the level of compliance.

3.5 The Stipulation

Penalty for delayed payment is not charged

3.5.1 Rationale:

Penalty may be an apt 'tool' on MFI's financial prudence point of view. But, it escalates the cost to borrowers who miss repayment instalments. When the delay in repayment spreads over a period, the mounting penalty would bog down the poor borrower from servicing the loan, thereby forcing them into a debt trap.

3.5.2 Interpretations:

Penalty normally refers to the extra interest (over and above the normal interest rate) charged on the principal instalment amount for the period for which the instalment is delayed. Penalty, at times, may be charged on the delayed interest portion also. These are not permitted altogether.

The norm prohibits penalty for delayed payment for both qualifying & non-qualifying loans. However, in the concept of reducing balance, delayed-principal means interest (though not penalty) will still apply till it is paid.

3.5.3 Compliance Strategy:

Policy formulation, field staff and customer training would be the fundamental steps towards compliance. From the MIS the provision for charging penalty may be taken away. Loan agreement with the clients may carry clauses to this effect.

The compliance certifying agency / Chartered Accountant, can verify account statements, receipt books/ loan pass books, and also enquire borrowers on a sample basis to assess the compliance status.

3.6 Stipulation

No Security Deposit / Margin is charged

3.6.1 Rationale:

Part of the rationale mentioned in Section 1.5 may be applicable to this condition as well. In addition, security deposit / margin money escalates the effective interest rate of the loan which is against the spirit of the regulation.

3.6.2 Interpretations:

No Security Deposit or Margin from the borrower for both qualifying & non-qualifying loans. But Collateral may be taken for non-qualifying loans from the guarantor.

3.6.3 Compliance Strategy:

Policy changes, staff and client training are the first steps towards compliance.

Loan agreement with clients may carry a clause to the effect that the loan involves no security deposit or margin money.

The certifying agency must ensure that there are no devious methods for collecting security deposit or margin money. In some instances the loan amount is disbursed after holding back a portion as margin, whereas the loan documentation is for the full loan amount. In some cases, the MFI may collect savings from clients and retain the collected savings as margin for the loan given to the members. In the first place,the MFIs may not have authority to collect savings as per law. These aspects are of interest to be verified.

Section 4 : Entry Point Norm[13]

4.1 The Stipulation

The NBFC-MFIs shall have Net Owned Fund (NoF) of Rs. 5 Crore.

The NBFC-MFIs in the North Eastern (NE) Region shall have Net Owned Fund (NoF) of Rs. 2 crore. These are required for the purpose of registration and subsequent capital requirement. (The NBFC-MFIs have been given certain relaxation to bring Rs.3 Crore NoF by the end of 31 March 2013 with a condition that they should reach Rs. 5 crore by 31 March 2014. Similarly those operating in NE region will have to bring Rs.1 crore by 31 March 2012 and Rs.2 crore by 31 March 2014).

If the entities are not able to bring the required NoF, they shall restrict lending to microfinance sector to 10 per cent of their total asset.

4.1.1 Rationale:

The RBI has stipulated prudential requirement for all banks and financial institutions for ensuring financial soundness of the institutions. NoF is a prudential requirement stipulated for NBFC-MFIs which are regulated by RBI. The NoF ensures adequate stake of the promoters / owners of the MFIs in safeguarding the interest of stakeholders.

[13] This Norm is exclusively applicable to NBFC-MFIs.

4.1.2 Interpretations:

The calculation[14] of Owned Fund and Net Owned Fund is as follows:

Tier I Capital (Owned Fund) is the Sum of:

- Share Capital (Paid-up Capital + Preference Shares which are compulsorily convertible into equity)
- Free Reserves (Including General Reserves, Debenture Redemption Reserves, Capital Redemption reserves, Credit Balance in P & L Accounts, Other Free reserves (to be specified)
- Capital reserves representing surplus arising out of sale proceeds of asset + Balance in Share Premium account.

Deduct from the above:

- Deferred Revenue Expenditure
- Reserves created by revaluation of assets
- Accumulated Loss balance
- Losses in the current period and those brought forward from previous periods
- Book value of Intangible Assets
- Deferred Tax Asset

Tier I Capital (Net Owned Fund)

Further deduct from the "Owned Funds", the following to arrive at NoF:

- Investments in shares of other NBFCs, investment in shares , debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies from the same group exceeding, I aggregate, 10 per cent of the owned fund.
- Perpetual debt instruments issued by a NBFC-ND-SI to the extent not exceeding 15 per cent of the aggregate Tier I capital – as on 31st March of previous Accounting Year.

4.1.3. Compliance Strategy

NBFCs intending to operate as MFIs need to bring the minimum NoF for getting classified as MFIs.

The certifying agency has to scrutinize the Balance Sheet and other account books to ensure that the Net owned Funds of the NBFC-MFI is not less than Rs. 5.00 crore or Rs. 2.00 crore as the case may be.

[14] The methodology for NOF and CAR related calculations has been sourced from ICAI discussion forums .

Section 5. Prudential Norm

5.1.The Stipulation

All new NBFC-MFIs shall maintain a capital adequacy ratio of Tier I and Tier II capital which shall not be less than 15 per cent of its aggregate risk weighted assets. The Tier II capital shall exceed 100 per cent of Tier I capital.

5.1.1 Rationale :

The purpose of Capital Adequacy is to ensure adequacy of financial solvency of MFIs in relation to the extent of their loan exposure.

5.1.2 Interpretations:

Calculation of Tier I Capital (see section 4.1.2)

Calculation of Tier II capital is the Sum of the following :

- Preference shares other than those which are compulsorily convertible into equity
- Revaluation Reserves (RR) - 45 per cent is only taken in calculation of tier II capital
- General Provisions and Loss Reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of (1.25 percent of risk weighted assets. (Include provisions on standard assets)
- Hybrid Debt Capital Instruments
- Perpetual debt instruments issued by a SI-ND NBFC which is in excess of what qualifies for Tier I Capital
- Subordinated Debts

Capital Adequacy Ratio (Capital to Risk Asset Ratio - CRAR)

Capital in the form of Tier I and Tier II capital is to be maintained against total risk weighted assets.

Steps for calculating CRAR (Capital to Risk Asset Ratio).

Step 1 : Finding out owned Fund

Step 2 : From Own Fund , derive Net Owned Fund (Tier I Capital)

Step 3 : Find Tier II Capital

Step 4 : Derive Total Risk weighted Assets (TRWA)
TRWA = Total Risk Weighted assets (see Table 2) of Balance Sheet and Off Balance Sheet item

CRAR = (Tier I + Tier II) / TRWA (This is normally expressed in percentage)

Table 2. The conversion factor/ Risk weight for On-Balance sheet items

On–Balance Sheet Asset	Weight (%)	Amount *(e.g.)	Weighted Amt
Fixed Assets	100	500	500
Bonds of Public Sector Banks	20	500	100
Investment in PDI of NBFCs	100	500	500
Shares/Debenture/CPs/Bonds	100	500	500
Cash and Bank	0	20	0
Stock on Hire	100	500	500
Intercorporate Deposit/ Loan	100	500	500
Loans to staff	0	50	0
Other secured Loans and advances	100	200	200

Risk Weight for Off-Balance Asset	Weight (%)
Financial and other guarantees, partly paid shares / debentures, bills discounted / rediscounted / Lease contract entered into but yet to be executed	100
Shares / Debentures underwriting obligations & Other Contingent Liabilities (To be specified in the calculation)	50

Cash margins / deposits shall be deducted before applying the conversion factor.

5.1.3 Compliance Strategy:

The MFIs need to bring in equity capital, junior Debt / Mezzanine Finance and retain surplus in a way that the Tier I and Tier II capital are maintained in proportion to the risk weighted Asset. Risk Weighted Asset is a dynamic asset which influences the CAR at a given point of time. The risk weight of securitized asset which is with recourse (the repayment liability comes back to MFIs, in case of the securitized portfolio turning non-performing) has to be on par with normal asset.

Andhra Pradesh MFIs have got special dispensation from RBI for retaining the capital adequacy by reckoning Loan loss reserve. For calculation of CRAR, the provisioning made towards AP portfolio shall be notionally reckoned as part of NOF and there shall be progressive reduction in such recognition of the provisions for AP portfolio equally for a period of five years. Accordingly, 100 per cent of the provision made for the AP portfolio as on March 2013 would be added back notionally to NOF for

CRAR purposes as on that date. This add-back would be progressively reduced by 20 per cent each year i.e. up to March 2017.

When MFIs understand the CAR norms and identify the items correctly, CAR calculation is fairly simple.

Using the same approach, any external agency/ Chartered Accountant may verify the compliance at any given date.

5.2 The Stipulation

Provisioning Norms:

The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of :

i. 1 per cent of the outstanding loan portfolio (or)

ii. Sum of 50 per cent of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100 per cent of the aggregate loan installments which are overdue for 180 days or more.

5.2.1 Rationale:

Provision for bad debts is for covering the operation risk of non payment of loans. Periodical provison in the balance sheet helps MFIs to absorb the risk gradually. This will also help reflect the quantum of asset, without overstating the same in the financial statements.

5.2.2 Interpretations:

i. Standard Asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business.

ii. Nonperforming Asset means an asset for which, interest / principal payment has remained overdue for a period of 90- days or more.

The provision norm is very clear for understanding and adoption. The method of calculation of provision is illustrated below with help of a hypothetical example. Let us assume that an MFI has a total portfolio of Rs. 10 crore as of March 2014.

- First there will be 1 per cent provision which means the MFI makes Rs. 10 lakhs.
- If there are 200 loans of Rs. 15000 each of which Rs. 5000 have been repaid; the remaining instalments/outstanding are for Rs. 10,000 each that are overdue between 90 and 180 days; then the MFI makes a provision of Rs. 10 lakhs.

- If there are another 150 loans of Rs.12,000 each of which Rs. 4000 each have been repaid; the remaining instalments/outstanding are for Rs. 8000 each that are overdue for more than 180 days; then the MFI makes a provision of Rs. 12 lakhs.
- In the above illustration, the total provision required is Rs. 22 lakhs as of March 2014 (Rs. 10 or Rs.(10+12), whichever is higher = Rs.22 lakhs).
- In this case, if the accumulated reserve provision (Reserve for Bad Debt) for loans available in the balance sheet is Rs. 20 lakhs, the MFI has to make fresh provision of Rs. 2 lakhs debiting the profit and loss account for 2013-14 to make the total reserve for bad debt of Rs. 22 lakhs as of March 2014.
- In a contrasting case from the above, if the total provision so required is Rs.15 lakhs only (instead of Rs. 22 lakhs that we arrived at for the illustration), the MFI may choose to release the extra provision of Rs. 5 lakhs (Rs.20 minus Rs. 15 lakhs = Rs. 5 lakhs) to profit and loss account for 2013-14, the same would be treated as additional income for the year.
- The same calculation is repeated every year to add to/deduct from the outstanding provision for bad debts to maintain the right amount of provision against the overdue loans.

5.2.3 Compliance Strategy:

The MFI management needs to capture Portfolio Aging Report/Arrear Report (Table 3) periodically to assess the provision requirement at any given point of time. The MFI with an efficient and functioning MIS should be able to generate these reports on a regular basis to the management for monitoring and making adjustments in provision and to the statutory auditors for certification.

Table 3. Format for Portfolio Aging / Arrear Report

Arrear Slab Arrear in int./principal for (a)	**No. of Accounts (b)**	**Gross Outstanding Loan Amount (Rs) (c)**	**Applicable Provision Rate (%) as per prudential Norm (d)**	**Provision Amount (e) (= cxd)**
< 7 days			1%	
7- 14 days			1%	
15-30 days			1%	
31-60 days			1%	
61-90 days			1%	
91-180 days			50%	
> 180 days			100%	
Total				

Section 6 Fair Practices in Lending

The topic on the fair practices in lending is dealt with in this section under two broad thematic areas:

a. Fair Practices through Transparency in prices and loan terms, and
b. Fair Practices in dealing with clients and recovery of loans.

a. Fair Practices through Transparency in prices and loan terms

Transparency in prices shall be achieved through MFIs spelling out components of loan price. As per the norm, there shall be only three components in the pricing of the loan viz., the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof); there will be no penalty charged on delayed payment; no security deposit / margin money taken from the borrower. The above aspects have been covered in detail in the previous sections. In this sub-section, the other loan terms are discussed briefly.

6.1 The Stipulation

There shall be standard form of loan agreement (for entering into loan contract with the microcredit borrowers.)

6.1.1 Rationale:

The MFIs , in all fairness , will have to deal with all borrowers with similar terms and conditions. This will avoid possible confusion among and discrimination against different types of borrowers. Uniform agreement would enable standardized MIS, documentation etc. In this, the legal positions of all contracts with borrowers will also be uniform,protecting the interests of both the MFIs and the borrowers.

6.1.2 Interpretations:

A standard form of loan agreement is required. However, standard for what level is not clear: industry/ for company/ for various loans (individual, SHG, JLG, Centre liability). The requirement for non-qualifying loans is not yet clear.

However, since the MFIs have the primary responsibility of complying with the norm, they may plan to have standard agreements at the MFI level at least for the qualifying loans.

6.1.3 Compliance Strategy:

Typical loan agreement set for an MFI contract may include, inter alia, the following:

i. Loan Application
ii. Loan Sanction Letter
iii. Demand Promissory Note (DPN)
iv. Loan agreement
v. Loan Disbursement and Acknowledgement & Receipt

Suggested format for the above documents have been shown in Annexure 8,9,10 & 11. The formats, to the extent possible , carry the clauses stipulated under RBI Fair Practices Code. These formats are not the prescribed ones for the industry from Sa-Dhan, but suggested templates for individual MFIs to serve as a guide.

Verification of availability of standard form of loan agreement with MFIs is easy for any external agency or Chartered Accountants.

6.2 The Stipulation

The Loan agreements/documents shall be in vernacular language; all entries in the documents and loan pass book etc. need to be in vernacular language. Acknowledgements for all payments from clients have to be ensured.

6.2.1 Rationale:

The rationale is obvious that MFIs communicate in the language understandable by the clients to enable the latter to take informed decisions.

6.2.2 Interpretations:

The MFIs may decide what is vernacular language to majority of the clients of each branch / locality. MFIs operating in multiple states will have to look at this dilemma properly before deciding . MFIs apparently deal with uniform/ homogenous clients at least for the sake of group guarantee and hence it may be easier to decide what constitutes vernacular for the group clients.

6.2.3 Compliance Strategy:

This norm is easy to follow, once the choice of the language is made.

6.3 The Stipulation

The MFIs shall provide standardised Loan Card to borrowers with the following features:

- ***Standard KYC norms***
- ***Photo Identity***
- ***Loan Amount***
- ***Instalment Frequency***
- ***Instalment Due Dates with amounts***
- ***Effective Interest Rate***
- ***Terms and Conditions***
- ***Entries in the Loan Card in vernacular language***

6.3.1 Rationale :

This is to ensure absolute transparency as well as to avoid reported unhealthy practices like 'fictitious and ghost'[15] borrowings.

6.3.2 Interpretations:

KYC (Know Your Customer) norm is as per RBI circular No. DBOD.AML. BC.No 24/14.1.001/2013-14 dt. 1 July 2013 . The concept of Effective Interest rate has already been explained in Box 8.

6.3.3 Compliance Strategy:

It is convenient to adopt. A suggested (not prescribed by Sa-Dhan for entire industry) template of Loan Card is available in Annexure ---

6.4 The Stipulation

Effective Rate of Interest must be displayed clearly in the vernacular language in simple terms in a visible and commonly accessible area in all MFI offices, in printed literature like brochure, pamphlets and in the MFI website.

6.4.1.Rationale :

This is obviously to ensure transparency.

6.4.2 Interpretations:

Effective Interest rate is a tricky concept universally, as it is influenced by the Time Value of Money. A minor shift in the time of transaction will alter the Effective Rate. Technically, Effective Rate is Internal Rate of Return (IRR) which takes into account all streams of cash flow in a given loan transaction. Effective Interest Rate (EIR) and another analogous concept Annual Percentage Rate (APR) will have to be understood properly for transparent dealing with poor clients. EIR and APR concepts have been narrated in Box 8 under Section 3.4.2

6.4.3 Compliance Strategy:

The MFI may , using suitable tool / formula, estimate the effective rate and display in all places and quote in communication materials.

b. Fair Practices in dealing with Clients and Recovery of Loan

Microfinance clients are poor, illiterate, and vulnerable and the MFIs shall have appropriate mechanism to deal with this politically and socially sensitive segment. The HR and operational systems should be geared up to cater to this segment.

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[15] These refer to unhealthy MFI practice of making loans available either to benami –borrowers or to non-existing persons. These loans may be 'repaid' through ingenious ways showing turnover in the business. These jargons gained entry into microfinance literature, first used by the Malegam Committee.

6.5 The Stipulation

Recovery of loan given in violation of the regulations should be deferred till all prior existing loans are fully repaid.

6.5.1 Rationale :

This may be to disincentivise MFIs from non adhering to RBI norms.

6.5.2 Interpretations:

- Recovery of any Non-qualifying Loan must be after recovery of qualifying loan.
- This may not apply to any loans before Dec 02, 2011 (the date of RBI notification).
- Thus after Dec 02, 2011 the collection under the following types loans may be stopped
    - Loans given by 3rd NBFC-MFI (vide section 7.1)
    - Loans made when borrower has joined 2nd JLG/SHG (vide section 7.1)
    - Last Loan given where borrowers outstanding has exceeded Rs. 50000
    - Loans without 1 week/fortnight/month moratorium
    - Loans more than Rs.15000 with less than 2 years term.

6.5.3 Compliance Strategy:

MFIs can use Credit Bureau reports and find out where from (may be from their competing MFI) their customers have availed non-qualifying loans, and advise the other MFI concerned to stop collection till their own qualifying loans get repaid.

6.6 The Stipulation

Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at the central designated place on two or more successive occasions.

6.6.1 Rationale :

This may be to protect the dignity of the borrowers and avoid undue harassment/ pressure which may lead to client protection issues.

6.6.2 Interpretations:

The central designated place may be the Centre Meeting place or where the groups gather for conducting the transaction with the MFI. The members' attendance marked by MFI may be used for deciding when to visit individual (non-paying) borrowers' place as allowed in the regulation.

6.6.3 Compliance Strategy:

It is easy to comply. The field officers trained on ethical recovery practice, code of conduct and RBI regulation would ensure compliance.

6.7 The Stipulation

The MFI shall ensure appropriate staff behavior and recovery methods as per the Fair Practices Code.

6.7.1 Rationale:

The microfinance clients, as stated earlier, are poor, illiterate and vulnerable. Staff behaviour matters a lot in the client service.

6.7.2 Compliance Strategy:

Policy changes and staff training are the key strategies. The HR Policy should include specific policy on sexual harassment and ways of dealing with the same. The Code of Conduct for the staff should include: dress code, time of visit to borrowers' household, boundaries that can never be crossed (Lakshman Rekha), words that can be used / avoided, how to address elderly women, sensitivity to cultural and traditional issues, how to accept even a glass of water, how to politely decline a glass of water without offending the sentiments of the households. Even during induction of staff and later during trainings, these aspects need to be emphasised so that potential violations relating to the code could be avoided.

Accordingly, training programmes need to inculcate in the staff the values enshrined in the MFI policy on the client protection matters. Training should also cover aspects relating to the Industry Code of Conduct and the Fair Practices Code stipulated by RBI. Training of the staff on financial transactions with the poor women is critical. The staff should always be reminded of their relationship with the borrowers being on equal footing, as if they are equal partners in the transaction, rather than as giver-receiver (benefactor – beneficiary).

Annexure 4 carries the RBI circular on Fair Practices Code.

Besids, Sa-Dhan as an industry association has Code of Conduct for MFIs (Annexure 6).

Section 7. Avoidance of Multiple Lending

Several undesirable practices were reported in the microfinance market, especially in states like Andhra Pradesh, which led to borrowers' stress, default in repayment etc. The MFIs and the borrowers were reported to be equally responsible for such aberrations. This section covers certain preventive measures, prescribed by the regulator in their notification, against recurrence of such practices.

7.1 The Stipulation

A borrower cannot be a member of more than one SHG / JLG.

7.1.1 Rationale:

Vigorous growth witnessed in the sector during the period from 2004 to 2009, and the business model pursued by some of the MFIs, apparently led to multiple lending and over borrowing. There were widely reported incidences where almost all SHG members chose to become members in more than one SHG. This was the case even among JLGs too. A few state Governments came down heavily on the MFIs accusing them of 'poaching' SHG clients for forming JLGs. While the clients, being citizen of India, have freedom to deal with multiple types of credit providers, the MFIs too have limited option to curtail the clients' choice. Multiple membership of a client in different economic groups (SHGs / JLGs) led to multiple borrowing, over indebtedness, repayment stress, kite flying (borrowing from one entity to repay the loan of another entity), etc. All these marred the microcredit market and the noble cause of microfinance. Malegam Committee and then RBI came up with this stipulation to regulate the membership with SHGs/ JLGs.

7.1.2 Interpretations:

- Individual lending, JLG lending and SHG lending – All models are permitted

- Borrowers can be members of only one JLG or SHG. This means all borrowers of Govt. SHGs cannot be lent to. Further borrowers of another JLG/SHG formed by another MFI cannot be lent to (unless lent individually)

- Only two NBFC-MFI can lend to a borrower, and thus use of Credit Bureau reports is presumed. This means if a JLG loan is sought and the applicant has already taken another JLG loan from another NBFC-MFI, the application has to be rejected. Effectively borrowers can have one JLG/SHG loan from one NBFC-MFI and other NBFC-MFI loan has to be an individual loan only.

7.1.3 Compliance Strategy:

Policy Changes, Staff and client training are the common strategy.

Reporting data to Credit Information Bureaus and making credit checks with the bureau of the applicants' antecedents is one of the ways of ascertaining the membership of clients in different groups. Incidentally, as discussed in the previous section, this helps to know the existing indebtedness as well. The SHGs and their promoters' participation in Credit Bureau will make this method of due diligence foolproof. In villages where the MFIs had not begun operating, this technique may not be useful.

Another, rather expensive method, would be to enquire with a sample of SHG households to verify loan exposure by examining individual credit availed.

Sa-Dhan has begun to network regionally, at times at the district level also , to share information about overlap of clients, etc. MFIs need to participate in these district forums and state chapters of the associations to exchange information on applicant-clients' possible multiple membership.

7.2 The Stipulation

Loan Moratorium Period should not be less than the Repayment Frequency.

7.2.1 Rationale:

The purpose of loan is to enable the poor borrower to use the loan amount in productive activity to enhance his/ her income. Demanding the borrower to repay the first instalment very soon after loan disbursement would affect her ability to use the amount effectively / cash flow, may be defeating the purpose.

7.2.2 Interpretations:

It is important to understand what is meant by Moratorium Period.

In the case of a weekly loan, the moratorium period cannot be less than one week. To cite an example, if a weekly loan is documented and disbursed on the 12th July, the moratorium period is one week and hence the first instalment becomes due not earlier than 19th July.

In the case of a monthly loan, if the loan has been disbursed on 12th July, the moratorium period is 30 calendar days and the first instalment becomes due on the 12th August. In other words, an MFI cannot disburse the loan on the 12th July and collect the first instalment on 1st August, claiming that it is a monthly loan.

Other possible interpretations / scenarios may be:

- Weekly loans / Fortnightly Loans – No ambiguity / challenge
- Fortnightly Loans : 14 Days, Every 2 Weeks, Twice a Month.
- Monthly : Every Month by Date or Once every Month
- Impact of holidays on collection (Saturday/Sunday when collection is by date).
- Collection once every 4 weeks is not monthly (i.e. 13 installments).
- Collection on specified day on a week, e.g. Every 1st Monday or 3rd Friday or 4th Wednesday is still a monthly loan.
- Generally 1 month may involve 28 days to 31 days, depending on the relevant month in the calendar.
- Moratorium only for 1st collection

7.2.3 Compliance Strategy:

This norm is easy to comply with, when the periodicity is weekly/fortnightly. Other types need to be studied properly looking for the scenarios quoted above and moratorium period be fixed.

Policy changes, staff and client training would be an important strategy. Suitable changes in the repayment schedule and MIS will help to detect any deviation.

This can be verified from the loan card and also from the actual repayment instalments for which due receipts are given by the MFI.

7.3 The Stipulation

Loan disbursements shall be at Central locations

7.3.1 Rationale:

This is perhaps for ensuring transparency in the disbursement, for having proper witness for loans given to the 'actual' (not ghost/fictitious) borrowers and for taking witness of group members who are obliged to guarantee the loans.

7.3.2 Interpretations:

- All loans (qualifying loans & non-qualifying loans) sanctioned centrally
- Disbursal to be done centrally (i.e. at the branch or centre).
- 2 individuals involved in sanction

- 2 individuals involved in disbursal
- High supervision (i.e. branch manager required) for disbursal

7.3.3 Compliance Strategy:

This is already a part of the strategy of majority of MFIs across India.

Chartered Accountant or any external agency may accept photographs of group/ borrower gatherings where disbursements are effected as proof. The attendance register is another record for verifying this. This can also be counter-checked by interacting with a sample of borrowers.

Section 8: Corporate Governance

RBI regulation on MFI Governance has been on general terms and hence is not discussed in this section under the so called Stipulation-Rationale-Interpretations-Compliance strategy formula used in the previous sections. A general strategy on governance is narrated in this section.

Governance is a key area which will impact the functioning of the MFI and determine the level of compliance with the regulatory requirements and fulfilment/ safeguarding the stakeholders' expectations/interest. Quality of governance is reflected not only in the operations but also in HR Policy, enabling environment, adherence and commitment to transparency and in maintenance of ethical standards. Inducting independent directors in the MFI board would enhance credibility of MFIs and ensure fair-play, transparency,etc.

8.1 Role of Directors

The Directors may design a code of conduct for the following aspects relating to governance.

i. Sitting fees for board meetings

ii. Ceiling on the number of MFI Boards on which a director takes seats

iii. Attendance during board meetings

iv. Recording of dissenting notes on important policy decisions

Directors will also have to make sure that important policies are introduced. Similarly, they can ensure that policy decisions are backed by proper board resolutions and are not just based on management decisions or circulars.

Box 9. Corporate Governance – Gist of RBI circular (CC No. 187 issued for NBFCs on July 1, 2011)

Best corporate practices – enhance investor confidence and confidence of other stakeholders.

Audit firms of NBFCs with more than Rs. 20 crore of public deposit to be rotated at least once in three years. The same firm may do the audit after three years.

Constitution of committees:

NBFC with Rs.50 + crore of asset as per last audit report or NBFC with Rs. 20 + crore deposit to constitute Audit Committee with not less than three board members .

Nomination Committee:

Board of Directors with 'Fit and Proper' credentials. RBI to see that character of the management is prejudicial to the interest of the depositors. NBFCs above Rs.20 crore deposit to constitute Nomination Committee.

Risk Management Committee:

Asset Liability Management Committee to address the market risk of NBFCs with Rs. 20 crore + deposit or Rs.100 crore + assets through proper management of asset and liability.

Risk Management committee will be constituted to manage integrated risk.

Disclosure and Transparency:

Information on the following to be put up before the board meeting on regular intervals.

Progress made in putting in place a progressive risk management system, and risk management policy and strategy followed.

Conformity with corporate governance standards–constitution of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

To quote examples, resolutions regarding borrowings have to be passed during physical board meetings and can never be done through circular resolutions or even through teleconference. Similarly changes in operations manuals on certain key matters like interest rate, processing fees, etc. need to be done through proper board meetings.

Board of Directors could play an active role in determining certain prudential norms relating to areas like auditing. They should guide the management in facilitating decisions regarding rotation of auditors after three years as a matter of compliance.

Directors will be directly and indirectly responsible for the following statutory/ ethical compliance.

- Compliance with Memorandum and Articles of Association, Bye Laws and Regulations.
- Compliance with tax laws.
- Compliance with FCRA Regulations.
- Related party transactions among these entities.
- Secretarial Compliance.
- Overall compliance with the laws in the context of HR and applicability of the relevant HR regulations.
- Caution while dealing with related institutions where same person/persons hold(s) key positions in multiple institutions/ companies.
- Filing of returns, the nature of the documents, time limits, etc
- Engaging Statutory Auditors on the Net Owned Funds and carrying on NBFC activities .

The board of directors may also prescribe disclosure norm for the annual reports. Sa-Dhan had issued an Advisory Set for MFIs (its abstract given Annexure 7) which carries certain minimum disclosure norms.

Conclusion

The RBI regulations discussed under eight sections in this part of the hand book could serve as a ready reference guide to the MFIs to understand the nitty gritties of the regulation and adopt.

The MFIs may incorporate the perspectives of the regulations narrated here in their governance, training and audit system to make the compliance spontaneous.

Part C: Key Stakeholders' Role in Regulatory Compliance

In this part, the role of three important stakeholders namely. The MFIs auditors, Banks and Industry Association in ensuring regulatory compliance among MFIs is highlighted.

Section 1: Role of MFI Auditors[16]

Auditors have significant role in Non –NBFC MFIs and in NBFC-MFIs. They need to conduct compliance audit and issue certificates to enable the MFIs to produce the same to banks and other stakeholders.

The auditors have critical role in converting NBFC into NBFC-MFI and periodical certification of NBFC-MFI status. The auditors need to certify loan / asset pattern for applying for NBFC-MFIs.

Paragraph 15 of NBFC (Non-Deposit) Directions is relevant to NBFC-MFIs also. The NBFCs need to hold Certificate of Registration (COR) and possess the prescribed asset and income pattern. The auditors need to certify on MFI's fulfillment of NBFC-MFI conditions.

Any Chartered Accountant (CA) may issue certificate towards fulfillment of NBFC-MFI conditions. The certificate needs to be issued to lenders periodically. The certification pertains to to Qualifying Asset and Pricing, Fair Practices, Governance, etc. as discussed in Part B of this book. A check list for auditors to do the compliance audit is given at end of this section.

1.1. General Certification Guideline

For the purpose of certification, the auditors may examine reports of MFIs viz., internal audit statutory audit, management letter of statutory auditors, internal reviews, etc. Similarly, they can collect updated copies of circulars on purpose of loan, rate of interest, mode of payment, tenor, penalty, insurance, processing fees, security deposit, margin, collateral, etc.

The auditors may visit branches on rotation to examine documents, meeting customers. They can encourage branch level certification to facilitate coverage and depth. Adopting scientific approach, the auditors may resort to sampling methods to

[16] Source : The presentation made in Sa-Dhan RBI Compliance workshop by Sunanda & Sheshadri, Chartered Accountants and the MFIs discussions thereon in Bangalore and Chennai.

verify documents on a rotation basis. A few MFIs follow Cluster Sampling method[17]. The sample may depend on size and cluster of branches being supervised. Auditors may, in consultations with MFIs evolve sampling procedure for verification of documents / interaction with functionaries and clients.

They may insist that MFIs do all calculations, prepare statements on margin, etc for them to verify the same and certify. This will enable the MFIs to understand the finer aspects of RBI norms and implement them flawlessly in course of time. To make compliance spontaneous, the auditors may suggest MFIs to widen the internal audit parameters to include RBI norms.

The auditors may suggest the following general compliance strategy (Specific Compliance Strategy under each regulatory piece is given in Part B) to their client MFIs.

- Appropriate board resolution, clear policy guidelines/circular.
- Comprehensive staff and client training on all aspects of RBI regulation.
- Internal audit programme- revamped and the check list / parameters widened to include RBI norms. This will detect deviation and non-compliance areas.
- Branches linked to head office electronically- electronic data processing.
- Circulars and guidelines consolidated as master circulars and disseminated periodically.
- Chartered accountants need not be statutory. Internal auditor may do quarterly certification.
- Branch level CA certification in large MFIs and consolidation at head office.
- Arrangement to collect self-declarations from borrowers on indebtedness, income, etc. and loan- end- use verification / certification done by field staff.

The auditors need to make recommendations in writing and issue suitable certificates.

Standard Certificate form may be used (a typical certificate format is shown in Annexure 14).

The auditors, in their MFI compliance report, may avoid use of absolute statements like :"***Each** of the MFI's borrowers' income does not exceed…*"or "*Total indebtedness of **each** of the MFI's borrowers does not exceed Rs.50000*"which maybe fallacious or misleading.

[17] For example, CASHPOR reports to adopt Cluster Sampling wherein the branches are bunched into different clusters, from which sample of clusters are first randomly selected and then sample of branches are randomly selected within each sampled cluster.

Given the importance of compliance audit , the auditors may undertake the exercise with all seriousness rather than just as yet another certification task.

1.2 Auditors' Checklist

In this sub-section a check list of areas to be looked at by certifying auditors is furnished hereunder. Each item of the check list is followed by a brief points on the underlying regulation. In addition, Verification Tips are given serving as a ready reference to the auditors on the suggested means of verification. This verification Tips are complementary to the general guidance given for auditors under each and every regulatory piece discussed in Part B.

The Checklist

- The MFI (NBFC) holds Certificate of Registration (COR)
  If the application is pending before RBI, to state so in the report / certificate.

- Net Owned Fund
  Rs.5 Crore (other MFIs) / Rs.2 Crore (North East MFIs).

- Qualifying Asset (85% of the Net Asset).
  (Loan disbursed by MFI fulfilling criteria/limits as below

  Borrower's annual household income.

Rural Poor	Rs. 60,000/-
Urban Poor	Rs.1, 20,000/-

  Verification Tips: The auditor needs to make sample check of loan files (with entries on income estimate and self-declaration of income by clients) and interview with clients to calibrate the loan file entries.

- Loan amount limit

First cycle	Rs.35000/-
Subsequent cycles	Rs.50000/-

- Total debt of borrower – Rs.50, 000/-

  ***Verification Tips:* The auditor needs to make sample check of loan files (with appraisal reports, self-declaration of income by clients and CIB reports) in rotation and interview with clients to corroborate the loan file entries.**

- Tenor (Loan Period), Security, other Terms:
  - Minimum 24 months for loan exceeding Rs.15000
  - No collateral
  - No prepayment penalty
  - Option to repay weekly, bimonthly and monthly.

Verification Tips : Compliance of the above items may be verified by checking MIS reports, account statements, Loan files, application forms, loan pass books and interview with borrowers on sample and rotation basis.

- Loans to Income Generating Purposes (minimum 70 per cent on Net Assets)

  Income on 15 per cent of net assets shall be as per regulations laid down.

  Verification Tips : Compliance of the above items may be verified by checking MIS reports, account statements, Loan files, application forms, and interview with borrowers on sample and rotation basis. NBFC not qualifying to be an NBFC-MFI shall not have Microfinance portfolio exceeding 10 per cent of Total Asset.

- Capital Adequacy Ratio (CAR)- Minimum 15 per cent of aggregate risk weighted assets. (Please see Section 5.1)

Verification Tips : The Account and Financial Statements may be studied to verify the compliance level. Also Special dispensation given to Andhra Pradesh MFIs may be reckoned (Please see Section 5.1.3 page 27)

- Asset classification and provisioning (from1 April 2012)

  Standard Asset

Verification Tips : No default perceived; No problem involved and No more than normal business risk Non performing asset.

Verification Tips : Overdue interest / principal for 90 days or beyond.

Provisioning norms as per stipulation:

Verification Tips: Higher of the following: 1 per cent of loan portfolio (Or) 50 per cent of overdue loan installment (90 days to 179days) and 100 per cent of over dues for 180 days or more.

- Pricing
  - Margin (See Box 7) not to exceed 12 per cent (10 per cent for Rs >100 Crore MFIs from 1 April 2014)
  - The maximum variation in interest rate of a loan not to exceed 4 per cent
  - Processing fess @ 1 per cent of gross loan and excluded from margin.
  - Actual cost of insurance (premium) and admn.charge as per IRDA.

- Fair Practice on Pricing

  (Only three components– interest, 1% processing fee and insurance including administration, No penalty on delayed payment, No security deposit / margin

  Standard loan agreement (See Annexures 8,9,10 & 11)

  Loan card to borrower is transparent.

  Verification Tips: Effective interest rate, other terms and conditions, Identification of borrower, vernacular language & acknowledgement for receipt of all repayments and final discharge.

  Effective rate of interest to be displayed in all offices, website and literature.

  Avoidance of multiple lending

  Verification Tips : Loan to individuals, Borrower not member of more than one SHG/JLG,

- Maximum of two (NBFC) MFI lenders per borrower .

  Verification Tips : CIB reports, local enquiries, etc are useful means)

- Moratorium period for the first installment – minimum of repayment frequency)

  Verification tips : Loan passbook entries

- Sanction, Disbursement and Recovery as per norms

  Verification Tips: Sanction, disbursement (involving more than one individual) and recovery at a central location (recovery visit to borrower place when borrower failing to appear for two or more consecutive occasions. Code of conduct and systems for recruitment, training and Supervision of staff for appropriate recovery and staff behavior)

- Fair practices code in loan transaction (See Annexure 4)

  Verification tips : The above loan related check points. Plus loan application to be acknowledged, time frame for sanction, sanction letter in transparent terms including interest rate (APR), timely communication in changes in loan terms, non –coercive recovery, grievance redressed by one level (in the hierarchy of MFI) above the level at which grievance originated, grievance officers and RBI regional officer's contact details to be displayed, etc.)

  Corporate Governance in place (see Box 9)

Section2. Role of Banks

Banks have major stake in MFIs. Banks in India collectively lent and have at present over Rs. 24000[18] crore as outstanding loan with all MFIs in India. Every year there have been bank lending to MFIs to the tune of around Rs.10000 crore. MFIs borrowing from banks constitutes nearly 75 per cent of their total borrowing.

Banks, as stated in the Malegam Committee report, play a critical role in monitoring compliance of RBI norms by MFIs. Besides, RBI has written separate letter to all banks advising them to ensure that their MFIs adhere to RBI norms for sanctioning loans under priority sector advances Schemes. (see Annexure 1)

Following are certain indicative areas of responsibility.

- Banks due diligence exercise shall encompass the compliance of RBI regulation.
- Banks to insist on quarterly certificate from MFI auditors to the effect that the MFI is compliant with RBI norms.
- Banks, if required, may undertake verification checks on the MFI performance to satisfy themselves of the priority sector status of the loans given to the MFI.

Box 10. SIDBI's Loan Covenants in MFI Lending

SIDBI leads Lenders' Forum of banks lending to MFIs. SIDBI advocates certain common minimum conditions for MFIs to follow and banks to incorporate in their due diligence process. The gist of the covenants are:

- To furnish financial and operational data.
- To undergo third-party Code of Conduct Assessment (COCA)
- To undergo systems and portfolio audit covering areas of operational systems, procedure, funds utilization, assessment of portfolio in terms of risk parameters, finance, planning and control.
- To ensure transparency and uniformity in calculating and reporting the effective cost (to clients and in public domain)
- To prepare board approved recovery practice each branch to undertake responsible and non-coercive recovery practice at the field level.
- Broad –policy to check multiple lending / over indebtedness annual affirmation of strategy by board.
- To put in place grievance redress mechanism and display the same both in website and offices.
- Electronic and printed acknowledgement to customers.
- To report data to Credit Information Bureau.

[18] Sa-Dhan Bharat Microfinance Report series and data base.

Section 3. Role of Industry Association (Sa-Dhan)

Industry Association - Sa-Dhan-in India has very critical role in self regulating the MFIs in line with the RBI regulation.

It has been advocating Industry Code of Conduct which covers all aspects of Fair practices code propounded by RBI. In fact, Sa-Dhan introduced its first code of conduct in the year 2007 for orderly conduct of operation, protecting all stake holders' interests including those of clients (See Annexure 6). The same year Sa-dhan introduced Advisory set for transparent disclosure by MFIs. (See Annexure 6)

Sa-Dhan had been requesting RBI to regulate the MFIs and microfinance sector since the year 2000. The request has come into fruition in 2011 through RBI regulation to NBFCs. It is already pursuing the microfinance bill which is before the parliament.

Sa-Dhan had been working with MFIs for proper adherence of the RBI code. To begin with Sa-Dhan collected data from MFIs on the level of adherence to RBI norms as soon the norms had been recommended by the Malegam committee. The Bharat Microfinance Report 2011 carried the analysis of MFI data indicating the operational and financial characteristics vis- a-vis the recommended norms. In addition, Sa-Dhan provided feedback on the changes required in the norms as soon as they were notified. Similarly, after the norms came into force, it conducted workshops across regions on ways of implementing the norms by MFIs. It held regional workshops in Lucknow, Bangalore and Chennai (see inside wrapper for exihibits).

Sa-Dhan had incorporated the RBI norms as part of its three pillar strategy-Policy Advocacy, Data and Standards and Capacity Building.

3.1 Prospects for Self Regulatory Organization and Sa-Dhan:

RBI noted, in its circular dated August 3rd 2012, "The Malegam Committee has recommended greater responsibility to be placed on industry associations for monitoring of regulatory compliance. All NBFC-MFI will have to become member of at least one Self-Regulatory Organisation (SRO) which is recognised by the Reserve Bank and will have to comply with the Code of Conduct prescribed by the SRO. Guidelines on the SRO structure will follow shortly."

It further opined, "the responsibility for compliance to all regulations prescribed for MFIs lies primarily with the NBFC-MFIs themselves. The Industry association/SROs will also play a key role in ensuring compliance with the regulatory framework…."

This hand book is just an indicative outcome of such larger role envisaged by RBI for industry association in regulatory compliance. Sa-Dhan will endeavor to widen this role with help of the regulator and other stakeholders.

Annexure 1
RBI Regulations

भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

RBI/2010-11/505
RPCD.CO.Plan BC. 66 /04.09.01/2010-11 **May 3, 2011**

The Chairman/Managing Director/ Chief Executive Officer
(All Scheduled Commercial Banks)

Dear Sir/ Madam,

Bank loans to Micro Finance Institutions (MFIs) – Priority Sector status

We invite a reference to paragraphs 92-93 of the Annual Policy Statement for the year 2011-12.

2. It has been decided to regulate microfinance sector by the Reserve Bank as a separate category. In this connection, we advise that bank credit to Micro Finance Institutions extended on, or after, April 1, 2011 for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., agriculture, micro and small enterprise, and micro credit (for other purposes), as indirect finance, provided not less than 85% of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan, extended for income generating activity, is not less than 75% of the total loans given by MFIs.

3. A "qualifying asset" shall mean a loan disbursed by MFI, which satisfies the following criteria:

   (i) The loan is to be extended to a borrower whose household annual income in rural areas does not exceed Rs.60,000/- while for non-rural areas it should not exceed Rs.1,20,000/.

   (ii) Loan does not exceed Rs.35,000/- in the first cycle and Rs.50,000/- in the subsequent cycles

   (iii) Total indebtedness of the borrower does not exceed Rs.50,000/-.

   (iv) Tenure of loan is not less than 24 months when loan amount exceeds Rs.15,000/- with right to borrower of prepayment without penalty.

   (v) The loan is without collateral.

   (vi) Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

4. Further, the banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines', to be eligible to classify these loans as priority sector loans:

(i) Margin cap at 12% for all MFIs. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.

(ii) Interest cap on individual loans at 26% per annum for all MFIs to be calculated on a reducing balance basis.

(iii) Only three components are to be included in pricing of loans viz., (a) a processing fee not exceeding 1% of the gross loan amount, (b) the interest charge and (c) the insurance premium.

(iv) The processing fee is not to be included in the margin cap or the interest cap of 26%.

(v) Only the actual cost of insurance i.e. actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges to be recovered as per IRDA guidelines.

(vi) There should not be any penalty for delayed payment.

(vii) No Security Deposit/ Margin are to be taken.

5. The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that (i) 85% of total assets of the MFI are in the nature of "qualifying assets", (ii) the aggregate amount of loan, extended for income generation activity, is not less than 75% of the total loans given by the MFIs, and (iii) pricing guidelines are followed.

6. The guidelines relating to categorization of (i) investment by banks in securitised assets originated by MFIs and (ii) outright purchase of loan portfolios of MFIs as priority sector advances in the books of the banks would be issued in due course. In the meantime, fresh assets would qualify for priority sector treatment only if they satisfy the criteria of qualifying assets and adhere to the pricing guidelines as specified above.

7. Bank loans to MFIs, which do not comply with above conditions and bank loans to other NBFCs, will not be reckoned as priority sector loans w.e.f. April 1, 2011. The bank loans extended prior to April 1, 2011 classified under Priority Sector will continue to be reckoned under Priority Sector till maturity of such loans.

8. We are in the process framing regulatory guidelines on the other recommendations of the Malegam Committee. Micro Finance Institutions to be included in the above regulatory framework have to initiate requisite organisational capacity building exercise so as to enable them to conform to the above guidelines. Banks which are lending to MFIs will be one of the important pillars of the new regulatory framework and, hence, they need to build up necessary criterion of due diligence while processing loan applications from MFIs. This process should be initiated immediately to ensure that MFIs availing finance from them are capable enough to put up the systems in terms of Corporate Governance, Human Resource Management, Customer Protection and other aspects of the proposed regulatory framework, so as to ensure that once the new regulatory framework is in place, Micro Finance Institutions can carry out their operations without any major disruption.

9. Kindly acknowledge receipt of this circular.

You rs faithfully,

(Deepali Pant Joshi)
Chief General Manager-in-Charge

Annexure 2

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2011-12/290
DNBS.CC.PD.No. 250/03.10.01/2011-12 **December 02, 2011**

To
All NBFCs (excluding RNBCs) Dear Sir,

Introduction of New Category of NBFCs - 'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) - Directions

As indicated in the Second Quarter Review of Monetary Policy in November 2010, a Sub-Committee of the Central Board of the Reserve Bank (Chairman: Shri Y. H. Malegam) was constituted to study issues and concerns in the MFI sector. The Committee submitted its report in January 2011. In the Monetary Policy Statement 2011-12, it was announced that the broad framework of regulations recommended by the Committee has been accepted by the Bank.

2. Creation of a Separate Category of NBFC-MFI

It has been decided to create a separate category of NBFCs viz; Non Banking Financial Company-Micro Finance Institution (NBFC-MFI). Consequently there would be following categories of NBFCs:

i. Asset Finance Company (AFC)
ii. Investment Company (IC)
iii. Loan Company (LC)
iv. Infrastructure Finance Company (IFC)
v. Core Investment Company (CIC)
vi. Infrastructure Debt Fund- Non- Banking Financial Company (IDF-NBFC)
vii. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI)

3. The Sub-Committee had recommended a role for industry associations in monitoring of compliance by NBFC-MFIs with the regulations. Separate guidelines in this regard will follow.

4. The Notification DNBS.PD.No.234 CGM(US)2011 dated December 02, 2011 containing the regulatory framework for NBFC-MFIs, the amending notifications DNBS.PD.No.235/CGM(US) 2011 dated December 02, 2011 amending the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) directions, 2007 and DNBS.PD.No.236/CGM(US)2011 dated December 02, 2011 amending the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 are enclosed for meticulous compliance.

Yours faithfully

(Uma Subramaniam)
Chief General Manager in Charge

Notification DNBS. PD.No.234 / CGM(US)-2011 dated December 02, 2011

The Reserve Bank of India having considered it necessary in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to give the directions set out below, hereby, in exercise of the powers conferred by sections 45JA, 45K, 45L and 45M of the Reserve Bank of India Act, 1934 (2 of 1934), and of all the powers enabling it in this behalf, hereby gives the Directions hereinafter specified.

PART-I
PRELIMINARY

1. Short title and commencement of the Directions

i. These Directions shall be known as the Non-Banking Financial Company -Micro Finance Institutions (Reserve Bank) Directions, 2011.

ii. These Directions shall come into force with immediate effect.

2. Extent of the Directions

These Directions shall apply to every Non Banking Financial Company-Micro Finance Institution (NBFC-MFI) as defined in these Directions.

3. Definition of NBFC-MFI

An NBFC-MFI is defined as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:

I Minimum Net Owned Funds of Rs.5 crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs. 2 crore).

i. Not less than 85% of its net assets are in the nature of "qualifying assets."

For the purpose of ii. above,

"Net assets" are defined as total assets other than cash and bank balances and money market instruments.

"Qualifying asset" shall mean a loan which satisfies the following criteria:-

a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 60,000 or urban and semi-urban household income not exceeding Rs. 1,20,000;

b. loan amount does not exceed Rs. 35,000 in the first cycle and Rs. 50,000 in subsequent cycles;

c. total indebtedness of the borrower does not exceed Rs. 50,000;

d. tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty;

e. loan to be extended without collateral;

f. aggregate amount of loans, given for income generation, is not less than 75 per cent of the total loans given by the MFIs;

g. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

   ii. Further the income an NBFC-MFI derives from the remaining 15 percent of assets shall be in accordance with the regulations specified in that behalf.
   iii. An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10% of its total assets.

3. Regulatory Framework for NBFC-MFIs

A. Entry Point Norm

As stated above, all new NBFC-MFIs except those in the North Eastern Region of the country should have a minimum Net Owned Funds (NoF) of Rs 5 crore; those located in the North eastern region should have a minimum NoF of Rs. 2 crore for purposes of registration. The existing NBFCs to be classified as NBFC-MFIs will be required to comply with this norm w.e.f April 01, 2012.

B. Prudential Norms

a. Capital Requirement

All new NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets. The total of Tier II Capital at any point of time, shall not exceed 100 percent of Tier I Capital. The risk weights for on-balance sheet assets and the credit conversion factor for off-balance sheet items will be as provided in para 16 of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve bank) Directions 2007.

Note:

i. *Among the existing NBFCs to be classified as NBFC-MFIs, those with asset size less than Rs. 100 crore will be required to comply with this norm w.e.f April 01, 2012. Those with asset size of Rs. 100 crore and above are already required to maintain minimum CRAR of 15%.*

ii. *The CRAR for NBFC-MFIs which have more than 25% loan portfolio in the state of Andhra Pradesh will be at 12% for the year 2011-2012 only. Thereafter they have to maintain CRAR at 15%.*

b. Asset Classification and Provisioning Norms:

With effect from April 01, 2012 all NBFC-MFIs shall adopt the following norms(till then they shall follow the asset classification and provisioning norms as given in the Non- Banking

Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007).

Asset Classification Norms:

i. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;
ii. Nonperforming asset means an asset for which, interest/principal payment has remained overdue for a period of 90 days or more.

Provisioning Norms:

The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more.

c. All other provisions of the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 will be applicable to NBFC-MFIs except as indicated therein.

C. Other Regulations

a. Pricing of Credit

i. All NBFC-MFIs shall maintain an aggregate margin cap of not more than 12%. The interest cost will be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.
ii. Interest on individual loans will not exceed 26% per annum and calculated on a reducing balance basis.
iii. Processing charges shall not be more than 1 % of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.
iv. NBFC-MFIs shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges where recovered, shall be as per IRDA guidelines.

b. Fair Practices in Lending

I. Transparency in Interest Rates

a. There shall be only three components in the pricing of the loan viz., the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect there of).
b. There will be no penalty charged on delayed payment.
c. NBFC-MFIs shall not collect any Security Deposit/ Margin from the borrower.
d. There should be a standard form of loan agreement.

e. Every NBFC-MFI should provide to the borrower a loan card reflecting

(i) the effective rate of interest charged
(ii) all other terms and conditions attached to the loan
(iii) information which adequately identifies the borrower and
(iv) acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge.
(v) All entries in the Loan Card should be in the vernacular language.

f. The effective rate of interest charged by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it and on its website.

II. Multiple-lending, Over-borrowing and Ghost-borrowers

a. NBFC-MFIs can lend to individual borrowers who are not member of Joint Liability Group(JLG)/Self Help Group(SHG) or to borrowers that are members of JLG/SHG.
b. a borrower cannot be a member of more than one SHG/JLG.
c. not more than two NBFC-MFIs should lend to the same borrower.
d. there must be a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first instalment.The moratorium shall not be less than the frequency of repayment. For e.g.: in the case of weekly repayment, the moratorium shall not be less than one week.
e. recovery of loan given in violation of the regulations should be deferred till all prior existing loans are fully repaid.
f. All sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function.

III. Non- Coercive Methods of Recovery

- NBFC-MFIs shall ensure that a Code of Conduct and systems are in place for recruitment, training and supervision of field staff. The Code of Conduct should also incorporate the Guidelines on Fair Practices Code issued for NBFCs vide circular CC No.80 dated September 28, 2006 as amended from time to time.
- Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions.
- All other elements of the Fair Practices Code issued for NBFCs vide CC No 80 dated September 28, 2006 as amended from time to time shall be adhered to.

c. Corporate Governance

The Master Circular issued for NBFCs on Corporate Governance vide CC No. 187 dated July 01, 2011 shall be applicable to NBFC-MFIs also.

d. Improvement of Efficiency

NBFC-MFIs shall review their back office operations and make the necessary investments in Information Technology and systems to achieve better control, simplify procedures and reduce costs.

e. Others

All NBFCs may refer to the circular RPCD.CO.Plan BC. 66 /04.09.01/2010-11 dated May 3, 2011 issued by the Rural Planning and Credit Department of RBI titled "Bank loans to Micro Finance Institutions (MFIs) – Priority Sector status" issued to banks with regard to guidelines on priority sector.

4. Existing NBFCs that satisfy the above conditions may approach the Regional Office in the jurisdiction of which their Registered Office is located, along with the original Certificate of Registration (CoR) issued by the Bank for change in their classification as NBFC-MFIs. Their request must be supported by their Statutory Auditor's certificate indicating the asset (loan) pattern as on March 31, 2011. The onus of including only eligible assets for the purpose of classification as NBFC-MFI shall be that of the company concerned. The change in classification would be incorporated in the Certificate of Registration issued by the Bank as NBFC-MFI.

5. In terms of paragraph 15 of the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 all NBFCs are required to submit Statutory Auditors Certificate with reference to the position of the company as at end of the financial year ended March 31 every year. For an NBFC-MFI, such Certificate will also indicate that the company fulfils all conditions stipulated to be classified as an NBFC-MFI in this circular.

6. Non-compliance with these Directions shall invite penal provisions under the RBI Act, 1934.

Yours sincerely

(Uma Subramaniam)
Chief General Manager-in-Charge

Annexure 3

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2012-13/161
DNBS (PD) CC.No.300 /03.10.038/2012-13 **August 03 , 2012**

All NBFCs

Dear Sir,

'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions – Modifications

Please refer to the Directions issued vide RBI(PD)CC.250 dated December 02, 2011 wherein a new category of NBFCs, viz., Non Banking Financial Company- Micro Finance Institution (NBFC-MFI) was created along with a regulatory framework governing the same. The Bank has been receiving representations from NBFCs that are primarily into micro financing, conveying difficulties in complying with the framework. In the light of this, it has been decided to make certain modifications in the Directions issued on December 02, 2011. The modifications are under the following sub-heads.

Para No.	Particulars
2	Capital requirement – Entry Point Norms i. Existing NBFCs ii. New Companies
3	Qualifying Assets
4	Multiple Lending and Indebtedness
5	Ensuring Compliance with Conditionalities
6	Pricing of Credit
7	Capital Adequacy, Asset Classification and Provisioning Norms
8	Geographical Diversification
9	Customer Protection Initiatives
10	Formation of SRO
11	Monitoring of Compliance
12	Application for Registration as NBFC-MFIs

2. Capital requirement – Entry Point Norms

i. Existing NBFCs

a. All registered NBFCs intending to convert to NBFC-MFI must seek registration with immediate effect and in any case not later than October 31, 2012, subject to the condition that they shall maintain Net Owned Funds (NOF) at Rs.3 crore by March 31, 2013 and at Rs.5 crore by March 31, 2014, failing which they must ensure that lending to the Microfinance sector i.e. individuals, SHGs or JLGs which qualify for loans from MFIs, will be restricted to 10 per cent of the total assets.

b. In order to provide encouragement to NBFCs operating in North Eastern Region, the minimum NOF is to be maintained at Rs.1 crore by March 31, 2012 and at Rs.2 crore by March 31, 2014.

ii. New Companies

All new companies desiring NBFC-MFI registration will need a minimum NOF of Rs.5 crore except those in the North Eastern Region of the country which will require NOF of Rs.2 crore till further notice, as hitherto and would comply from the beginning, with all other criteria laid out in the following paragraphs.

3. Qualifying Assets

i. NBFC-MFIs are required to maintain not less than 85 per cent of their net assets as Qualifying Assets. In view of the problems being faced by NBFCs in complying with this criteria on account of their existing portfolio, it has been decided that only the assets originated on or after January 1, 2012 will have to comply with the Qualifying Assets criteria. As a special dispensation, the existing assets as on January 1, 2012 will be reckoned towards meeting both the Qualifying Assets criteria as well as the Total Net Assets criteria. These assets will be allowed to run off on maturity and cannot be renewed.

ii. NBFC-MFIs were also required to ensure that the aggregate amount of loans given for income generation is not less than 75 per cent of the total loans extended. On reconsideration, as the target clientele is predominantly at the subsistence level and basic human requirements stand to gain priority over income generation activities, it has been decided that income generation activities should constitute at least 70 per cent of the total loans of the MFI so that the remaining 30 per cent can be for other purposes such as housing repairs, education, medical and other emergencies.

4. Multiple Lending and Indebtedness

It is clarified that a borrower can be the member of only one SHG or one JLG or borrow as an individual. He can thus borrow from NBFC-MFIs as a member of a SHG or a member of a JLG or borrow in his individual capacity. However, a SHG or JLG or individual cannot borrow from more than 2 MFIs. Lending NBFC-MFIs will have to ensure that the above conditions are strictly complied with.

5. Ensuring Compliance with Conditionalities

Lending MFIs will have to ensure compliance with, among others, conditionalities relating to annual household income levels (Rs. 60,000/- for rural and Rs. 1,20,000/- for urban and semi urban households), total indebtedness (not to exceed Rs. 50,000/-), membership of SHG/ JLG, borrowing sources (as stipulated in para 4 above) as well as percentage of qualifying assets and percentage of income generating asset (as stipulated in para 3 above.)

Membership of Credit Information Companies will facilitate ensuring compliance with many of these conditionalities. Accordingly it is reiterated that every NBFC-
MFI has to be a member of at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, provide timely and accurate data to the CICs and use the data available with themto ensure compliance with the conditions regarding membership of SHG/ JLG, level of indebtedness and sources of borrowing. While the quality and coverage of data with CICs will take some time to become robust, the NBFC-MFIs may rely on self certification from the borrowers and their own local enquiries on these aspects as well as the annual household income.

6. Pricing of Credit

As per the Malegam Committee recommendations, the interest rate cap on loans given by MFIs has been fixed at 26 per cent, under guidelines issued on December 2, 2011. However, since borrowing costs are dynamic and may exceed the costs envisaged when the Committee recommendations were made, it may be difficult for MFIs which are borrowing at rates higher than envisaged at that time to operate along viable lines, if interest rate is capped at 26 per cent. Therefore, to allow for operational flexibility, NBFC-MFIs will ensure that the average interest rate on loans during a financial year does not exceed the average borrowing cost during that financial year plus the margin, within the prescribed cap. Moreover, while the rate of interest on individual loans may exceed 26%,the maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent. The average interest paid on borrowings and charged by the MFI are to be calculated on average monthly balances of outstanding borrowings and loan portfolio respectively. It has also been decided that the cap on margins as defined by Malegam Committee may not exceed 10 per cent for large MFIs (loans portfolios exceeding Rs.100 crore) and 12 per cent for the others. This measure will ensure that in a low cost environment, the ultimate borrower will benefit, while in a rising interest rate environment the lending NBFC-MFIs will have sufficient leeway to operate on viable lines. The figures may be certified annually by Statutory Auditors and also disclosed in the Balance Sheet.

7. Capital Adequacy, Asset Classification and Provisioning Norms

In view of the problems being faced by MFIs in Andhra Pradesh many of them have had to provide sizeable amounts towards the non-performing assets in the state. To reflect the true and fair picture of the financials of the NBFC-MFI in the Balance Sheet, the provisioning made towards the AP portfolio should be as per the current provisioning norms. However, for the calculation of CRAR, the provisioning made towards AP portfolio shall be notionally reckoned as part of NOF and there shall be progressive reduction in such recognition of the provisions for AP portfolio equally over a period of 5 years. Accordingly 100 per cent of the provision made for the AP portfolio as on March 31, 2013 would be added back notionally to NOF for CRAR purposes as on that date. This add- back would be progressively reduced by 20 per cent each year i.e. up to March 2017. An illustration of this has been provided in Annex-3. No write-back or phased provisioning is permissible. Provisioning for the non-AP portfolio will be as per the December 2, 2011 circular, with effect from April 1, 2013. Capital adequacy on non-AP portfolio and the notional AP portfolio (outstanding as on the balance sheet date less the provision on this portfolio not notionally added back) will have to be maintained at 15 per cent of the risk weighted assets.

8. Geographical Diversification

NBFC-MFIs may approach their Boards for fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations.

9. Customer Protection Initiatives

All elements of the Fair Practices Code issued by the Bank vide DNBS.PD.CC. No.286/03.10.042/2012-13 dated July 2, 2012 will need to be adhered to by the MFIs. NBFC-MFIs must also ensure that greater resources are devoted to professional inputs in the formation of SHG/ JLG and appropriate training and skill development activities for capacity building and empowerment after formation of the groups.

10. Formation of SRO

The Malegam Committee has recommended greater responsibility to be placed on industry associations for monitoring of regulatory compliance. All NBFC-MFIs will have to become member of at least one Self-Regulatory Organization (SRO) which is recognized by the Reserve Bank and will also have to comply with the Code of Conduct prescribed by the SRO. Guidelines on the SRO structure will follow shortly.

11. Monitoring of Compliance

The responsibility for compliance to all regulations prescribed for MFIs lies primarily with the NBFC-MFIs themselves. The industry associations/SROs will also play a key role in ensuring compliance with the regulatory framework. In addition, banks lending to NBFC-MFIs will also ensure that systems practices and lending policies in NBFC-MFIs are aligned to the regulatory framework.

12. Application for Registration as NBFC-MFIs

All existing NBFCs intending to be registered as NBFC-MFIs must seek registration with immediate effect as stipulated in

para 2(i)(a) in the enclosed format (Annex-1) to the Regional Office in the jurisdiction of which their registered office is located along with the original Certificate of Registration (CoR) issued by the Bank for change in their classification as NBFC-MFIs. The change in classification would be incorporated in the CoR as NBFC-MFI. New companies will need to provide additional information, as given in Annex – 2 in hard copy, while applying on-line for registration as NBFC-MFI.

13. The notifications in this regard amending the existing notifications viz; DNBS. PD.No.234/CGM(US)2011 titled “the Non-Banking Financial Company - Micro

Finance Institutions (Reserve Bank) Directions, 2011" dated December 2011 and DNBS.201/DG(VL)-2008 titled "Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008." dated September 18, 2008 will follow.

Yours sincerely,

(Uma Subramaniam)
Chief General Manager-in-Charge

Encl: as above

Annex-1

Details to be submitted by the NBFCs existing as on .... for applying for re-classification as NBFC-MFI

A. Net Owned Funds as on the date of application:

B. Capital Adequacy(CRAR) maintained as on March 31, 2012:

C. Loan Asset Profile as on the date of application:

Category	No. of accounts	Amount outstanding
(1). Total Loans outstanding as on the date of application		
i. Of the item (1). above, loans sanctioned on or after January 01, 2012 for amounts of Rs. 15, 000 and below		
i.i. Of the item at i. above, loans for tenure exceeding 1 year:		
ii. On the item (1). above, Loans sanctioned on or after January 01, 2012 with amount exceeding Rs. 15,000/-		
ii.i. for loans at item ii. above, loans for tenure less than 24 months		
iii. Loans extended towards income generation		
iv. Loans where the annual income of the household is		
iv.i. more than Rs. 60,000(for rural areas) iv.ii. more than Rs. 1,20,000 (for semi urban and urban areas)		
v. where the borrower has borrowed from more than 2 MFIs		
vi. where the borrower is member of more than 1 SHG/JLG		
vii. where the borrower has availed loans in individual capacity as also as member of SHG/JLG		

D. Pricing:

a. Average interest cost of borrowings of the NBFC-MFI as on March 31, 2011 and 2012

b. Average interest charged by the NBFC-MFI on advances extended as on March 31, 2011 and 2012

E. Of the item C (1) above, Number and amount of loans outstanding in the state of Andhra Pradesh as on March 31, 2012:

F. Amount of provisions, if any, held against loans in the state of Andhra Pradesh as on March 31, 2012:

G. Name of the Credit Information Bureau/Company the applicant company is accredited to:

Name: Signature: Date:

Annex-2

Details to be Submitted by New Companies Applying for Certificate of Registration as NBFC-MFI

A. Net Owned Funds as on the date of application:

B. Projected business plan for 3 years indicating the following (year wise):

i. Amount of loan assets to be originated

ii. Amount of loan assets to be extended for income generation

iii. Break up of amount of assets to be originated in rural areas and semi-urban and urban areas

iv. Activities the company intends to support in rural and semi-urban areas and urban areas

v. Projected profits

vi. Average cost of borrowings

vii. Average Return on Assets(ROA)

viii. Expected capital expenditure in

a) land and buildings and

b) IT resources

ix. Locations where the company intends to operate

x. Allocation of resources to training and skill development of SHGs/JLGs

Name: Signature: Date:

Annex - 3
Calculation of CRAR after making provisions on AP portfolio

Provisions made and the AP portfolio added back and gradually reduced								
Year	**Loss on account of provisions**	**Capital**	**Provisions Added back**	**Net Capital (3+4)**	**Required Capital (@15%)**	**Capital infusion required**	**Non-AP**	**AP**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Initial	0				30		100	100
Position								
2012-13	-100	-70	100	30	30	0	100	100
2013-14		-70	80	10	27	17	100	80
2014-15		-53	60	7	24	17	100	60
2015-16		-36	40	4	21	17	100	40
2016-17		-19	20	1	18	17	100	20
2017-18		-2	0	-2	15	17	100	0
2018-19		15	0	15	15	0	100	0
					Total	**85**		

For the sake of simplicity, the above illustration is based on a few assumptions as given below:

a) The AP portfolio comprises 50% of total portfolio of the NBFC-MFI.

b) The entire AP portfolio is taken as loss asset

c) The portfolios have remained stagnant over the next five years.

Annexure 4

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI / 2012-13/416
DNBS.CC.PD.No. 320/03.10.01/2012-13 **February 18, 2013**

To

All NBFCs Dear Sir,

Guidelines on Fair Practices Code for NBFCs – Grievance Redressal Mechanism - Nodal Officer

The Reserve Bank vide its circular dated March 26, 2012, issued revised guidelines on Fair Practices Code (FPC) for all NBFCs to be adopted by them while doing lending business. The guidelines were reviewed in view of the creation of a new category of NBFCs viz; NBFC-MFIs and also rapid growth in NBFCs' lending against gold jewellery.

2. Para 2 A (v) of the guidelines require that the Board of Directors of NBFCs should lay down the appropriate grievance redressal mechanism within the organization to resolve disputes between the company and its customers and the mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level.

3. **At the operational level, all NBFCs are required to display prominently, for the benefit of their customers, at their branches / places where business is transacted, the details of the grievance redressal officer belonging to their company as also that of the local office of RBI as detailed at paragraph (A) (vi) of annexe.**

4. The revised guidelines are issued under Section 45 L of the Reserve Bank of India Act, 1934 (Act 2 of 1934). The NBFCs may note to make suitable amendments in their existing FPC. The FPC so modified should be put in place by all NBFCs with the approval of their Boards within one month from the date of issue of this circular and should be published and disseminated on the web-site of the company, if any, for the information of the public.

Yours faithfully,

(C.R.Samyuktha)
Chief General Manager

Annex

Guidelines on Fair Practices Code for NBFCs

A. (i) Applications for loans and their processing

(a) All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.

(b) Loan application forms should include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. The loan application form may indicate the documents required to be submitted with the application form.

(c) The NBFCs should devise a system of giving acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of should also be indicated in the acknowledgement.

(ii) Loan appraisal and terms/conditions

The NBFCs should convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record. **As complaints received against NBFCs generally pertain to charging of high interest / penal interest, NBFCs shall mention the penal interest charged for late repayment in bold in the loan agreement.**

It is understood that in a few cases, borrowers at the time of sanction of loans are not fully aware of the terms and conditions of the loans including rate of interest, either because the NBFC does not provide details of the same or the borrower has no time to look into detailed agreement.

Not furnishing a copy of the loan agreement or enclosures quoted in the loan agreement is an unfair practice and this could lead to disputes between the NBFC and the borrower with regard to the terms and conditions on which the loan is granted.

NBFCs are, therefore, advised to furnish a copy of the loan agreement preferably in the vernacular language as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

(iii) Disbursement of loans including changes in terms and conditions

(a) The NBFCs should give notice to the borrower in the vernacular language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. NBFCs should also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement.

(b) Decision to recall / accelerate payment or performance under the agreement should be in consonance with the loan agreement.

(c) NBFCs should release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim NBFCs may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which NBFCs are entitled to retain the securities till the relevant claim is settled/paid.

(iv) General

(a) NBFCs should refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless new information, not earlier disclosed by the borrower, has come to the notice of the lender).

(b) In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e. objection of the NBFC, if any, should be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.

(c) In the matter of recovery of loans, the NBFCs should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc. **As complaints from customers also include rude beha vior from the staff of the companies. NBFCs shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.**

(v) The Board of Directors of NBFCs should also lay down the appropriate grievance redressal mechanism within the organization to resolve disputes arising in this regard. Such a mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level. The Board of Directors should also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews may be submitted to the Board at regular intervals, as may be prescribed by it.

(vi) **At the operational level, all NBFCs have to display the following information prominently, for the benefit of their customers, at their branches / places where business is transacted:**

- **the name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Company.**
- **If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the NBFC falls.**

In short, the public notice should serve the purpose of highlighting to the customers, the grievance redressal mechanism followed by the company, together with details of the grievance redressal officer and of the Regional Office of the RBI.

(vii) Fair Practices Code (which should preferably in the vernacular language as understood by the borrower) based on the guidelines outlined hereinabove should be put in place by all NBFCs with the approval of their Boards within one month from the date of issue of this circular. NBFCs will have the freedom of drafting the Fair Practices Code, enhancing the scope of the guidelines but in no way sacrificing the spirit underlying the above guidelines. The same should be put up on their web-site, if any, for the information of various stakeholders.

(viii) Complaints about excessive interest charged by NBFCs (issued vide CC No. 95 dated May 24, 2007)

The Reserve Bank has been receiving several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFCs. Though interest rates are not regulated by the Bank, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. Boards of NBFCs are, therefore, advised to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In this regard the guidelines indicated in the Fair Practices Code about transparency in respect of terms and conditions of the loans are to be kept in view.

(ix) Regulation of excessive interest charged by NBFCs (Notification No. DNBS. 204/ CGM (ASR)-2009 dated January 2, 2009)

(a) The Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter, available on the web-site of the companies or published in the relevant newspapers. The information published in the website or otherwise published should be updated whenever there is a change in the rates of interest.

(b) The rate of interest should be annualised rates so that the borrower is aware of the exact rates that would be charged to the account.

(x) Clarification regarding repossession of vehicles financed by NBFCs (issued vide CC No. 139 dated April 24, 2009)

NBFCs must have a built in re-possession clause in the contract/loan agreement with the borrower which must be legally enforceable. To ensure transparency, the terms and conditions of the contract/loan agreement should also contain provisions regarding: (a) notice period before taking possession; (b) circumstances under which the notice period can be waived; (c) the procedure for taking possession of the security; (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property; (e) the procedure for giving repossession to the borrower and (f) the procedure for sale / auction of the property. A copy of such terms and conditions must be made available to the borrowers in terms of circular wherein it was stated that NBFCs may invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans, which may form a key component of such contracts/loan agreements.

B. NBFC-MFIs:

In addition to the general principles as above, NBFC-MFIs shall adopt the following fair practices that are specific to their lending business and regulatory framework.

i. General:

a. The FPC in vernacular language shall be displayed by an NBFC-MFI in its office and branch premises,

b. A statement shall be made in vernacular language and displayed by NBFC-MFIs in their premises and in loan cards articulating their commitment to transparency and fair lending practices,

c. Field staff shall be trained to make necessary enquiries with regard to existing debt of the borrowers,

d. Training if any, offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loan / other products,

e. The effective rate of interest charged and the grievance redressal system set up by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website,

f. A declaration that the MFI will be accountable for preventing inappropriate staff behavior and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises,

g. The KYC Guidelines of RBI shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers,

h. As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, all sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function,

i. Adequate steps may be taken to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

ii. Disclosures in loan agreement / loan card

a. All NBFC-MFIs shall have a Board approved, standard form of loan agreement. The loan agreement shall preferably be in vernacular language.

b. In the loan agreement the following shall be disclosed.

   i. All the terms and conditions of the loan,

   ii. that the pricing of the loan involves only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof),

   iii. that there will be no penalty charged on delayed payment,

   iv. that no Security Deposit / Margin is being collected from the borrower,

v. that the borrower cannot be a member of more than one SHG / JLG,

vi. the moratorium between the grant of the loan and the due date of the repayment of the first instalment(as guided by the NBFC-MFIs(Reserve Bank) Directions, 2011),

vii. an assurance that the privacy of borrower data will be respected.

c. The loan card should reflect the following details as specified in the Non- Banking Financial Company - Micro Finance Institutions (Reserve Bank) Directions, 2011.

(i) the effective rate of interest charged

(ii) all other terms and conditions attached to the loan

(iii) information which adequately identifies the borrower and

(iv) acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge.

(v) The loan card should prominently mention the grievance redressal system set up by the MFI and also the name and contact number of the nodal officer

(vi) Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself.

(vii) All entries in the Loan Card should be in the vernacular language.

iii. Non-Coercive Methods of Recovery

As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions.

NBFC-MFIs shall ensure that a Board approved policy is in place with regard to Code of Conduct by field staff and systems for their recruitment, training and supervision. The Code should lay down minimum qualifications necessary for the field staff and shall have necessary training tools identified for them to deal with the customers. Training to field staff shall include programs to inculcate appropriate behavior towards borrowers without adopting any abusive or coercive debt collection / recovery practices. Compensation methods for staff should have more emphasis on areas of service and borrower satisfaction than merely the number of loans mobilized and the rate of recovery. Penalties may also be imposed on cases of non-compliance of field staff with the Code of conduct. Generally only employees and not out sourced recovery agents be used for recovery in sensitive areas.

iv. Internal control system:

As the primary responsibility for compliance with the Directions rest with the NBFC-MFIs, they shall make necessary organizational arrangements to assign responsibility for compliance to designated individuals within the company and establish systems of internal control including audit and periodic inspection to ensure the same.

C. Lending against collateral of gold jewellery:

While lending to individuals against gold jewellery, NBFCs shall adopt the following in addition to the general guidelines as above.

i. They shall put in place Board approved policy for lending against gold that should inter alia, cover the following:

a. Adequate steps to ensure that the KYC guidelines stipulated by RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan,

b. Proper assaying procedure for the jewellery received,

c. Internal systems to satisfy ownership of the gold jewellery,

d. The policy shall also cover putting in place adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. As a policy, loans against the collateral of gold should not be extended by branches that do not have appropriate facility for storage of the jewellery,

e. The jewellery accepted as collateral should be appropriately insured,

f. The Board approved policy with regard to auction of jewellery in case of non-repayment shall be transparent and adequate prior notice to the borrower should be given before the auction date. It should also lay down the auction procedure that would be followed. There should be no conflict of interest and the auction process must ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities,

g. The auction should be announced to the public by issue of advertisements in at least 2 newspapers, one in vernacular language and another in national daily newspaper.

h. As a policy the NBFCs themselves shall not participate in the auctions held,

i. Gold pledged will be auctioned only through auctioneers approved by the Board.

j. The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.

ii. The loan agreement shall also disclose details regarding auction procedure.

Annexure 5

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2012-13/319
DNBS.CC.PD.No. 312 /03.10.01/2012-13 **December 07, 2012**

To
All NBFCs (excluding RNBCs)

Dear Sir,
Checklist for NBFCs, Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs), Non Banking Financial Company-Factoring Institutions (NBFC- Factors) and Core Investment Companies (CICs)

Please refer to the Application for seeking Certificate of Registration from the Reserve Bank and the list of documents mentioned therein that is required to be submitted. In order to expedite the process of obtaining registration from the Reserve Bank as NBFCs, the checklist of documents to be submitted along with the application form have been reviewed and made more exhaustive. As the businesses of the various types of NBFCs vary, the documentation required for registration will also vary. Hence the following may kindly be taken note of :

i. The Application Forms will remain the same for all NBFCs until changed in the online COSMOS Application, except in the case of CIC-ND-SIs where a separate application form has been prescribed.

ii. Five checklists have been uploaded in the RBI website, a) documents required for registration as NBFCs b) documents required for registration of NBFC-MFI – New Companies and c) documents required for registration of NBFC-MFI (Existing NBFCs) d) documents required for registration of NBFC – Factors and e) documents required for registration as CIC- ND-SI.

iii. While converting from an already registered NBFC to that of NBFC-MFI or NBFC- Factors, for the present, the concerned NBFC need not fill out the Application Form as provided in the RBI W ebsite. The Application for conversion may be made on company's letterhead accompanied by the original COR and all the documents as given in the checklist. The Bank will after scrutiny of the documents convert the status to NBFC-MFI or NBFC-Factors, as the case may be, by making a suitable remark on the Certificate of Registration. As stated above, this arrangement will be in place until the Application Form for NBFC-MFI and NBFC-Factors is changed in the COSMOS Online Application.

3. It is further advised that the Checklists mentioned are indicative and not exhaustive. Bank can, if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as NBFC. In the event of the Bank calling for further documents in addition to those mentioned in the checklist, the applicant company must respond within a stipulated time of one month failing which the application/ request for conversion along with all the documents will be returned to the company for submission afresh with the required information/documents.

Yours faithfully

(Uma Subramaniam)
Chief General Manager in Charge

Checklist for NBFC-MFI- New Companies

Name of the applicant Company :

Name of the Regional Office :

	Items to be Checked	Confirm	Page No.
1	Is the Application of the Company duly stamped		
2	Is the Application accompanied by the following :		
a.	Annexure I		
	Is the Annexure duly signed by the Board authorized Director of the Company under company's stamp? Board Resolution to the effect that the company will be a member of at least one Credit Information Bureau/Company and will be a member of at least one SRO.		
b.	Annexure II duly certified by the Auditor. Are the particulars/information furnished in Annexure II based on figures of latest annual audited balance sheet. (For companies incorporated after March 31 of the particular year in which the application is being made, information being furnished should be with reference to a date not earlier than 30 days of date of application.		
c	Annexure III as additional information for each of the Directors Are the DIN and PAN Nos indicated. Has the CIBIL data for all the directors submitted if company is already member of Credit Information Bureau If there are any foreign nationals as Directors, are the equivalent of PAN No issued by the authorities of the country of residence such as Social Security No., Passport No. and overseas bankers' report on them furnished? Do the names and addresses on such documents tally with DIN allotment letter. If not, are the reasons for variation provided? Or are the claims of genuineness supported by a magistrate's certificate. Are the current and past directorships held by the Directors and also the names and activities of the companies/firms where they are holding substantial interest (indicate percentage exceeding 10%) mentioned in each of the Annexure III. Are the names of the regulators (RBI,SEBI,IRDA,PFRDA,NHB or any other foreign regulator) of the entities in which the Directors hold directorships mentioned? If yes, please provide the registration details. Are the entities unregulated? If so what is the nature of their activities? Financial Statements of Unincorporated Bodies, if any, in the group where the directors may be holding directorship with/without substantial interest of the last 2 years.		
3	Are any of the companies indicated against Item No. 15 of Annexure III, an NBFC registered with the Reserve Bank,? If yes, please provide the registration details.		
4	Has the applicant company changed its name earlier? If yes are the earlier held names and dates of change together with the names of Chief Executive Officer and Chairman at the time of change of name furnished?		

	Has the applicant company furnished the reasoning for the change of name?		
5	Details of change in the management of the company during last financial year till date if any and reasons thereof.		
6	Has the applicant company ever defaulted in timely repayment of deposits and payment of interest? If yes, have they provided a list of all such pending cases and the action taken in respect of each case?		
7	Does the applicant company have any cases pending in any court including consumer forums? If yes, have they provided a list of such pending cases, including those pertaining to its deposit acceptance activities, if any?		
8	Are the certified and up-to date copy of the Memorandum of Association (MOA) and Articles of Association of the company submitted? Details of changes in the Memorandum and Articles of Association duly certified. Does the MOA of the applicant company have enabling clause/s for conducting MFI business by the company?		
9	Has the applicant company, if a public limited company, provided a certified copy of Certificate of Incorporation (bearing the signature of the Registrar of Companies) with the initial name & fresh certificate of incorporation consequent upon change of name of the Company?		
10	Has the applicant company provided a copy of the PAN/CIN Nos. allotted to the Company?		
11	Has the company submitted certified copies of the audited Balance Sheet & Profit and Loss Account for the last three years? If the company is incurring losses, are the steps to wipe out loss indicated?		
12	Has the applicant company raised unsecured loans, including from the Directors during the year? If yes, do these fall under the definition of public deposits as per Section 2(1)(xii) of the APD Directions, 1998?		
13	Is the company engaged in any capital market activity? If so, whether there has been any non-compliance with SEBI Regulations? (Statement to be certified by Auditors).		
14	What is the latest shareholding pattern of the company and what percentages do they comprise? If there are any NBFC corporate share holders, have the certificates from their statutory auditors regarding the adequacy of statutory NOF of such NBFCs post investment been provided? What is the line of activity of other corporate stake holders?		
15	Does the applicant company hold FDI? If yes, has the FDI been brought in with FIPB approval? (Copy of approval to be submitted). What is the percentage holding? Has the company submitted FIRC and FC-GPR in support thereof? Does the company fulfill the minimum capitalization norms or not? (Statutory Auditor certificate to be submitted) Is the foreign entity contributing the FDI subject to supervision in its home country?		

	If yes, what is the name, address and email id of the regulator? If not, what is the legal status of the foreign investor? Under what statutes was it established? Is it a listed or an unlisted entity? W as any approval given by FED, RBI? If yes, a certified copy of the approval may be attached. Activities undertaken, details of regulator of group/associate companies doing financial activities which are regulated either in the home country or elsewhere, if any. If any group/ associate company is operating in India, details such as its activities, its partners or associates, regulator/s etc. may be furnished.		
16	Whether the company was granted any permission by FED to function as Full-fledged Money Changers? If so, copy of the RBI letter granting the permission.		
17	Has the applicant company submitted a certified copy of Board Resolution approving the submission of application and its contents for COR as NBFC-MFI and also authorizing a Director to submit the application?		
18	Has the applicant company submitted a certified copy of the Board Resolution that the company has not accepted any public deposits in the past/ does not hold any public deposits as on date and will not accept the deposits in future without prior approval of the Bank?		
19	Has the applicant company submitted a copy of the board resolution certifying fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations?		
20	Has the applicant company submitted a certified copy of the Board Resolution that the company will adhere to the other regulations regarding pricing of credit, Fair Practices in lending and non-coercive method of recovery as specified in DNBS.CC.PD.No.250/03.10.01/2011-12 dated December 2, 2011?		
21	Has the applicant company submitted a certified copy of Board resolution stating the company is not licensed under Section 25 of the Companies Act, 1956?		
22	Does the Auditors Certificate certify the following : (a) The company is not holding any public deposits as on date (b) The company is not carrying on any NBFI activity as on date. (c) The company's NOF is … (d) A s per the projected figures given in the business plan of the company will meet the qualifying asset criteria		
23	Has the applicant company given a declaration to the effect that it is capable of electronic submission of Returns through the internet as and when required by Reserve Bank of India? Has the email of the company been provided?		
24	Have all the Directors of the applicant company given a declaration individually that they are not associated with unincorporated bodies and that they are in compliance to the provisions of Section 45S of the RBI Act, 1934?		
25	Is the Application accompanied by a certificate by a Chartered Accountant on the details including percentage shareholding of group/ associate/subsidiary/holding/related companies.		

	(‘Companies in the group’ have been exhaustively defined in para 3(1) b of Notification No. DNBS.(PD) 219/CGM (US)- 2011 dated January 05, 2011 as an arrangement involving two or more entities related to each other through any of the following relationships, viz; subsidiary-parent (defined in terms of AS-21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS 23), promoter-promotee (as provided in the SEBI-Acquisition of shares and takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above.) Do the details include names of the company, their activity, their regulators? If they are unregulated, have the details of their activities, provided? Are the names of the above companies/entities appearing in the balance sheet of the applicant company? If not, has the applicant company stated the reasons thereof? Is there any group companies located overseas? If yes, were these established under general permission route or under approval from appropriate authority? Are there any NBFCs from among the group companies? If so, the supervisory findings as observed in the last inspection conducted.		
26	Are there any other NBFC-MFIs/pending NBFC-MFIs in the group? If yes, has the applicant company provided any justification in having another NBFC-MFI within the Group?		
27	Has the applicant Banker’s report in r/o applicant company been furnished?		
28	Has the company furnished the Bankers’ Report in r/o companies in which the Directors of the applicant company have substantial interest as indicated against Items Nos. 14 & 15 of Annexure -III?		
29	Has the company submitted Bankers’ Reports in r/o group/subsidiary/holding companies if any, of the applicant company?		
30	Has the company submitted overseas Bankers’ Reports in r/o foreign directors, if any?		
31	Has the applicant company submitted the Business Plan for the next three years giving details of its thrust of business, market segment & projected balance sheets, Cash flow statement, asset/income pattern statement without any element of public deposits		
32	The Projected business plan for 3 years must indicate the following as well (year wise): i. Amount of loan assets to be originated ii. Amount of loan assets to be extended for income generation iii. Break up of amount of assets to be originated in rural areas and semi-urban and urban areas iv. Activities the company intends to support in rural and semi-urban areas and urban areas v. Projected profits vi. Average cost of borrowings vii. Average Return on Assets (ROA) viii. Qualifying Assets is more than 85% of the Net Assets.		

	ix. Expected capital expenditure in a. land and buildings and b. IT resources x. Locations where the company intends to operate xi. Allocation of resources to training and skill development of SHGs/ JLGs		
33	Is the number of directorships held by the company in compliance with Sections 274 - 278 of the Companies Act? If not, give detailed reasons for the same.		
34	Is the company or its Directors involved in any criminal case including Section 138 of Negotiable Instruments Act?		
35	Has the company provided details of infusion of capital if any during last financial year together with the copy of return of allotment filed with Registrar of Companies?		
36	What is the source of funds contributing to the initial capital of the applicant NBFC-MFI? Has the company produced documentary proof in this regard?		
37	Are there are any incidents of non-compliance with the directions of Revenue Authorities or any other statutory authority by the applicant company, its holding company/ subsidiaries, If yes, give particulars, else report "Nil"		

Note: (1) The Above Checklist is indicative and not exhaustive. Bank can,if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as NBFC-MFI.

(2) In the event of the Bank calling for further documents in addition to those mentioned above, the applicant company is supposed to respond within a stipulated time of one month failing which the original CoR application may be returned to the company for resubmission afresh with the required information/documents.

Checklist for NBFC-MFI- Existing Companies

Name of the applicant Company :

Name of the Regional Office :

	Items to be Checked	Confirm	Page No.
1	Is the Application of the Company duly stamped		
2	Is the Application accompanied by the following :		
a.	Annexure I Is the Annexure duly signed by the Board authorized Director of the Company under company's stamp? Has the Documentary evidence on membership to at least one Credit Information Bureau/Company submitted? Has the Board passed a resolution that the company will be associated with at least one Self Regulatory Organization (SRO)?		
b.	Annexure II duly certified by the Auditor. Are the particulars/information furnished in Annexure II based on figures of latest annual audited balance sheet or a date not earlier than 30 days of date of application.		
c	Annexure III as additional information for each of the Directors Are the DIN and PAN Nos indicated. Has the CIBIL data for all the directors been submitted? If there are any foreign nationals as Directors, are the equivalent of PAN No issued by the authorities of the country of residence such as Social Security No., Passport No. and overseas bankers' report on them furnished? Do the names and addresses on such documents tally with DIN allotment letter. If not, are the reasons for variation provided? Or are the claims of genuineness supported by a magistrate's certificate. Are the current and past directorships held by the Directors and also the names and activities of the companies/firms where they are holding substantial interest (indicate percentage exceeding 10%) mentioned in each of the Annexure III. Are the names of the regulators (RBI,SEBI,IRDA,PFRDA,NHB or any other foreign regulator) of the entities in which the Directors hold directorships mentioned? If yes, please provide the registration details. Are the entities unregulated? If so what is the nature of their activities? Financial Statements of Unincorporated Bodies,if any,in the group where the directors may be holding directorship with/without substantial interest of the last 2 years.		
3	Are any of the companies indicated against Item No. 15 of Annexure III, an NBFC registered with the Reserve Bank,? If yes, please provide the registration details.		
4	Is the CoR granted to the company to function as an NBFC enclosed in original?		

5	Has the applicant company changed its name earlier? If yes are the earlier held names and dates of change together with the names of Chief Executive Officer and Chairman at the time of change of name furnished?		
	Has the applicant company furnished the reasoning for the change of name?		
6	Details of change in the management of the company during last financial year till date if any and reasons thereof.		
7	Has the applicant company ever defaulted in timely repayment of deposits and payment of interest? If yes, have they provided a list of all such pending cases and the action taken in respect of each case?		
8	Does the applicant company have any cases pending in any court including consumer forums? If yes, have they provided a list of such pending cases, including those pertaining to its deposit acceptance activities, if any?		
9	Are the certified and up-to date copy of the Memorandum of Association (MOA) and Articles of Association of the company submitted? Details of changes in the Memorandum and Articles of Association duly certified. Does the MOA of the applicant company have enabling clause/s for conducting MFI business by the company?		
10	Has the applicant company, if a public limited company, provided a certified copy of Certificate of Incorporation (bearing the signature of the Registrar of Companies) with the initial name & fresh certificate of incorporation consequent upon change of name of the Company?		
11	Has the applicant company provided a copy of the PAN/CIN Nos. allotted to the Company?		
12	Has the company submitted certified copies of the audited Balance Sheet & Profit and Loss Account for the last three years? If the company is incurring losses, are the steps to wipe out loss indicated?		
13	Has the applicant company raised unsecured loans, including from the Directors during the year? If yes, do these fall under the definition of public deposits as per Section 2(1)(xii) of the APD Directions, 1998?		
14	Does the company fulfill the Qualifying asset criteria criteria for registration? Are its qualifying assets (originated on or after January 1, 2012) not less than 85% of its net assets? (Board Resolution certifying the same is to be submitted) *(Qualifying assets and net assets have been defined in as specified in DNBS. CC.PD.No. 250/03.10.01/2011-12 dated December 2, 2011 and DNBS (PD) CC.No.300 /03.10.038/2012-13 dated August 3, 2012)*		
15	If the company does not qualify as a MFI and still proposes to become one, has it provided a time bound action plan for qualifying as one?		
16	If the company does not meet the NOF requirement / minimum capital adequacy ratio as on the date of the last audited balance sheet has the applicant company provided a time bound action plan for compliance		

<table>
<tr>
<td>17</td>
<td>Please provide details of the loan asset profile as on the date of application certified by the Statutory Auditor in the following format along with annexure II: Category No. Of accounts
<table>
<tr><th>Category</th><th>No. of accounts</th><th>Amount outstanding</th></tr>
<tr><td>(1). Total Loans outstanding as on the date of application
(i) Of the item (1). above, loans sanctioned on or after January 01, 2012 for amounts of Rs. 15, 000 and below</td><td></td><td></td></tr>
<tr><td>(i.i) Of the item at i. above, loans for tenure exceeding 1 year:</td><td></td><td></td></tr>
<tr><td>(ii) On the item (1). above, Loans sanctioned on or after
January 01, 2012 with amount exceeding Rs. 15,000/-
(ii.i) for loans at item ii. above, loans for tenure less than 24 months</td><td></td><td></td></tr>
<tr><td>(iii) Loans extended towards income generation</td><td></td><td></td></tr>
<tr><td>(iv) Loans where the annual income of the household is
(iv.i) more than Rs. 60,000 (for rural areas) (iv.ii) more than Rs. 1,20,000 (for semi urban and urban areas)</td><td></td><td></td></tr>
<tr><td>(v) where the borrower has borrowed from more than 2 MFIs</td><td></td><td></td></tr>
<tr><td>(vi) where the borrower is member of more than 1 SHG/JLG</td><td></td><td></td></tr>
<tr><td>(vii) where the borrower has availed loans in individual capacity as also as member of SHG/JLG</td><td></td><td></td></tr>
</table>
</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Does the applicant company hold FDI?
If yes, has the FDI been brought in with FIPB approval? (Copy of approval to be submitted).
What is the percentage holding?
Has the company submitted FIRC and FC-GPR in support thereof? Does the company fulfill the minimum capitalization norms or not? (Statutory Auditor certificate to be submitted)
Is the foreign entity contributing the FDI subject to supervision in its home country?
If yes, what is the name, address and email id of the regulator?
If not, what is the legal status of the foreign investor? Under what statutes was it established? Is it a listed or an unlisted entity? W as any approval given by FED, RBI? If yes, a certified copy of the approval may be attached.
Activities undertaken, details of regulator of group/associate companies doing financial activities which are regulated either in the home country or elsewhere, if any.</td>
<td></td>
<td></td>
</tr>
</table>

	If any group/ associate company is operating in India, details such as its activities, its partners or associates, regulator/s etc. may be furnished.		
19	Whether the company was granted any permission by FED to function as Full-fledged Money Changers? If so, copy of the RBI letter granting the permission.		
20	Has the applicant company submitted a certified copy of Board Resolution approving the submission of application and its contents for COR as NBFC-MFI and also authorizing a Director to submit the application?		
22	Has the applicant company submitted a certified copy of the Board Resolution that the company has not accepted any public deposits in the past/ does not hold any public deposits as on date and will not accept the deposits in future without prior approval of the Bank?		
23	Has the applicant company submitted a copy of the board resolution certifying fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations?		
24	Has the applicant company submitted a certified copy of the Board Resolution that the company is adhering to the other regulations regarding pricing of credit, Fair Practices in lending and non-coercive method of recovery as specified in DNBS.CC.PD.No.250/03.10.01/2011-12 dated December 2, 2011?		
25	Has the company provided Board Resolution certifying the following details in addition to Annex II? A. Details of Average interest cost of borrowings of the NBFC-MFI as on March 31, 2011 and 2012. B. Average interest charged by the NBFC-MFI on advances extended as on March 31, 2011 and 2012 C. Of the total loans outstanding as on the date of application, Number and amount of loans outstanding in the state of Andhra Pradesh as on March 31, 2012 (if any) D. Amount of provisions, if any, held against loans in the state of Andhra Pradesh as on March 31, 2012		
26	Does the Auditors Certificate certify the following : (a) The company is not holding any public deposits as on date (b) The company's NOF is . (c) The company's asset size is . (d) The company's qualifying assets (originated on or after January 1,2012) is … and its ratio to net assets is …which is not less that 85 %. (e) The company's CRAR is …. (f) The company's loan portfolio in the state of Andhra Pradesh is ….. g) The company has adopted the asset classification and provisioning norms with effect from April 1, 2012 as specified in DNBS.CC.PD. No.250/03.10.01/2011-12 dated December 2, 2011. h) The company fulfills all conditions stipulated to be classified as an NBFC-MFI during the current financial year as specified in DNBS. CC.PD.No.250/03.10.01/2011-12 dated December 2, 2011.		

27	Has the applicant company given a declaration to the effect that it is capable of electronic submission of Returns through the internet as and when required by Reserve Bank of India? Has the email of the company been provided?		
28	Have all the Directors of the applicant company given a declaration individually that they are not associated with un- incorporated bodies and that they are in compliance to the provisions of Section 45S of the RBI Act, 1934?		
29	Is the Application accompanied by a certificate by a Chartered Accountant on the details including percentage shareholding of group/ associate/subsidiary/holding/related companies? *('Companies in the group' have been exhaustively defined in para 3(1) b of Notification No. DNBS.(PD) 219/CGM (US)-2011 dated January 05, 2011 as an arrangement involving two or more entities related to each other through any of the following relationships, viz; subsidiary-parent (defined in terms of AS-21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS 23), promoter-promotee (as provided in the SEBI-Acquisition of shares and takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above.)* Do the details include names of the company, their activity, their regulators? If they are unregulated, have the details of their activities, provided? Are the names of the above companies/entities appearing in the balance sheet of the applicant company? If not, has the applicant company stated the reasons thereof? Is there any group companies located overseas? If yes, were these established under general permission route or under approval from appropriate authority? Are there any NBFCs from among the group companies?		
30	Are there any other NBFC-MFIs/pending NBFC-MFIs in the group? If yes, has the applicant company provided any justification in having another NBFC-MFI within the Group?		
31	Has the applicant Banker's report in r/o applicant company been furnished?		
32	Has the company furnished the Bankers' Report in r/o companies in which the Directors of the applicant company have substantial interest as indicated against Items Nos. 14 & 15 of Annexure -III?		
33	Has the company submitted Bankers' Reports in r/o group/subsidiary/ holding companies if any, of the applicant company?		
34	Has the company submitted overseas Bankers' Reports in r/o foreign directors, if any?		
35	Has the applicant company submitted the Business Plan for the next three years giving details of its thrust of business, market segment & projected balance sheets, Cash flow statement, asset/income pattern statement without any element of public deposits		
36	The Projected business plan for 3 years must indicate the following as well(year wise): i. Amount of loan assets to be originated ii. Amount of loan assets to be extended for income generation		

	iii. Break up of amount of assets to be originated in rural areas and semi-urban and urban areas iv. Activities the company intends to support in rural and semi-urban areas and urban areas v. Projected profits vi. Average cost of borrowings vii. Average Return on Assets(ROA) viii. Qualifying Assets is more than 85% of the Net Assets. ix. Expected capital expenditure in a. land and buildings and b. IT resources x. Locations where the company intends to operate xi. Allocation of resources to training and skill development of SHGs/ JLGs		
37	Is the number of directorships held by the company in compliance with Sections 274 - 278 of the Companies Act? If not, give detailed reasons for the same.		
38	Is the company or its Directors involved in any criminal case including Section 138 of Negotiable Instruments Act?		
39	Has the company provided details of infusion of capital if any during last financial year together with the copy of return of allotment filed with Registrar of Companies?		
40	Does the company fulfill the provisioning norms? For the companies having an exposure to the Andhra Pradesh portfolio, the provisioning should be as per the current provisioning norms. However, for the calculation of CRAR, the provisioning made towards AP portfolio shall be notionally reckoned as part of NOF and there shall be progressive reduction in such recognition of the provisions for AP portfolio equally over a period of 5 years. (Please refer to Instructions - Annex II (13) for further clarification)		
41	Are there are any incidents of non-compliance with the directions of Revenue Authorities or any other statutory authority by the applicant company, its holding company/ subsidiaries, If yes, give particulars, else report "Nil"		

Note: (1) The Above Checklist is indicative and not exhaustive. Bank can,if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as NBFC-MFI.

(2) In the event of the Bank calling for further documents in addition to those mentioned above, the applicant company is supposed to respond within a stipulated time of one month failing which the request for conversion may be returned to the company for resubmission afresh with the required information/documents.

Annexure 6

Sa-Dhan
The Association of
Community Development
Finance Institutions

MFIN
Microfinance Institutions Network

Code of Conduct for Microfinance Institutions in India

PREAMBLE

Microfinance Institutions (MFIs), irrespective of legal forms, seek to create social benefits and promote financial inclusion by providing financial services to clients of financially un-served and underserved households. Over time, the Microfinance Sector has become an integral part of the financial infrastructure for the vulnerable sections of society in India.

Hence, it is important to define core values and fair practices for the microfinance sector so as to ensure that microfinance services through MFIs are provided in a manner that benefits clients, and is ethical and dignified.

This document includes:

Part I: The Core Values of Microfinance

Part II: Code of Conduct for Microfinance Institutions (The Code) Part III: Client Protection Guidelines for MFIs

Part IV: Institutional Conduct Guidelines

PART I
CORE VALUES OF MICROFINANCE

The Core Values of Microfinance can be stated as follows:

A. INTEGRITY:

To provide low-income clients - women and men - and their families, with access to financial services that are client focused and designed to enhance their well-being, and are delivered in a manner that is ethical, dignified, transparent, equitable and cost effective.

B. QUALITY OF SERVICE:

To ensure quality services to clients, appropriate to their needs, and delivered efficiently in a convenient and timely manner.

To maintain high standards of professionalism based on honesty, non-discrimination and customer centricity.

C. TRANSPARENCY:

To provide complete and accurate information to clients regarding all products and services offered.

To create awareness and enable clients and all other stakeholders to understand the information provided with respect to financial services offered and availed.

D. FAIR PRACTICES:

To ensure that clients are protected against fraud and misrepresentation, deception or unethical practices.

To ensure that all practices related to lending and recovery of loans are fair and maintain respect for client's dignity and with an understanding of client's vulnerable situation.

E. PRIVACY OF CLIENT INFORMATION:

To safeguard personal information of clients, allowing disclosures and exchange of relevant information with authorized personnel only, and with the knowledge and consent of clients.

F. INTEGRATING SOCIAL VALUES INTO OPERATIONS:

To ensure high standards of governance and management. To monitor and report social as well as financial data.

G. FEEDBACK and Grievance Redressal MECHANISM:

To provide clients formal and informal channels for feedback and suggestions.

To consistently assess the impact of services in order to enhance competencies and serve clients better.

To provide a formal grievance redressal mechanism for clients.

PART II
CODE OF CONDUCT FOR MICROFINANCE INSTITUTIONS

All Microfinance Institutions are required to follow all regulatory norms as well as consumer protection practices (specifically, RBI's Guidelines on Fair Practices issued for NBFCs) laid down by the government and the regulators in both letter and spirit. The Code of Conduct lays down additional requirements to enhance and improve sector practices. The code of conduct is to be followed by all MFIs regardless of their form.

APPLICATION OF THE CODE:

This Code applies to the following activities undertaken by Microfinance Institutions:

1. Providing credit services to clients, individually or in groups.
2. Recovery of credit provided to clients.
3. Collection of thrift from clients, where ever applicable.
4. Providing insurance and pension services, remittance services, or any other related products and services.
5. Formation of any type of community collectives including self-help groups, joint liability groups and their federations.
6. Business development services including marketing of products or services made or extended by the eligible clients or for any other purpose for the welfare and benefit of clients.

MFIs must agree to:

1. Promote and strengthen the Microfinance movement in the country by bringing low-income clients to the mainstream financial sector.
2. Build progressive, sustainable, and client-centric systems and practices to provide a range of financial services (consistent with regulation) to clients.
3. Promote cooperation and coordination among themselves and other agencies in order to achieve higher operating standards and avoid unethical competition in order to serve clients better.

In order to adhere to the core values of Microfinance, the Code of Conduct, as mentioned below, must be abided by all institutions providing microfinance services.

CODE OF CONDUCT

I INTEGRITY AND ETHICAL BEHAVIOUR

1. MFIs must design appropriate policies and operating guidelines to treat clients and employees with dignity.
2. MFIs must incorporate transparent and professional governance system to ensure that staff and persons acting on their behalf are oriented and trained to put this Code into practice.
3. MFIs must educate clients on the Code of Conduct and its implementation

II TRANSPARENCY

1. MFIs must disclose all terms and conditions to the client for all services offered.

Disclosure must be made prior to disbursement in accordance with the Reserve Bank of India's (RBI) fair practices code, in any of the following ways:

   a) Individual sanction letter
   b) Loan card
   c) Loan schedule
   d) Passbook
   e) Through Group/Centre meetings (Details can be printed on a paper and all borrowers can sign on the same as acknowledgement of their acceptance)

2. MFIs must communicate all the terms and conditions for all products/services offered to clients in the official regional language or a language understood by them.
3. At the minimum, the MFI must disclose the following terms:
   a) Rate of interest on a reducing balance method
   b) Processing fee
   c) Any other charges or fees howsoever described
   d) Total charges recovered for insurance coverage and risks covered
4. MFIs must communicate in writing, charges levied for all financial services rendered. Fee on non-credit products/services will be collected only with prior declaration to the client.

5. MFIs must declare all interest and fees payable as an all-inclusive Annual Percentage Rate (APR) and equivalent monthly rate.

6. MFIs must follow RBI's guidelines with respect to interest charges and security deposit.

7. Formal records of all transactions must be maintained in accordance with all regulatory and statutory norms, and borrowers' acknowledgment/acceptance of terms/conditions must form a part of these records.

III CLIENT PROTECTION

A. Fair Practices

1. MFIs must ensure that the provision of micro finance services to eligible clients is as per RBI guidelines.
2. MFIs must obtain copies of relevant documents from clients, as per standard KYC norms.

   Additional documents sought must be reasonable and necessary for completing the transaction.
3. Products should not be bundled. The only exceptions to bundling may be made with respect to credit life, life insurance & live-stock insurance products, which are typically offered bundled with loans. The terms of insurance should be transparently conveyed to the client and must comply with RBI & Insurance Regulatory and Development Authority (IRDA) norms. Consent of the client must be taken in all cases.

B. Avoiding Over-indebtedness

1. MFIs must conduct proper due diligence as per their internal credit policy to assess the need and repayment capacity of client before making a loan and must only make loans commensurate with the client's ability to repay.
2. If a client has loans from 2 separate lenders, then irrespective of the source of the loans, a MFI shall not be the third lender to that client.
3. MFIs must not, under any circumstance, breach the total debt limit for any client, as prescribed by RBI or Central/State Government(s).

C. Appropriate interaction and collection practices

1. MFIs must have clearly defined guidelines for employee interactions with clients.

2. MFIs must ensure that all Staff and persons acting on behalf of the MFI

   a) Use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interaction with clients.
   b) DO NOT indulge in any behavior that in any manner would suggest any kind of threat or violence.
   c) DO NOT contact clients at odd hours, as per the RBI guidelines for loan recovery agents.
   d) DO NOT visit clients at inappropriate occasions such as bereavement, sickness, etc., to collect dues.

3. MFIs must provide a valid receipt (in whatever form decided by the MFI) for each and every payment received from the borrower.

4. MFIs must have a detailed Board approved process for dealing with clients, at each stage of default.

5. MFIs must not collect shortfalls in collections from employees and their HR policies must categorically denounce this practice. An exception can however be made in proven cases of frauds by employees.

D. Privacy of client information

MFIs must keep personal client information strictly confidential. Client information may be disclosed to a third party subject to the following conditions:

a) Client has been informed about such disclosure and permission has been obtained in writing.
b) The party in question has been authorized by the client to obtain client information from the MFI.
c) It is legally required to do so.
d) This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau).

IV GOVERNANCE

MFIs must incorporate a formal governance system that is transparent and professional, and adopts the following best practices of corporate governance:

1. MFIs must observe high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body.
2. MFIs must endeavor to induct independent persons to constitute at least 1/3rd of the Governing Board, and the Board must be actively involved in all policy formulations and other important decisions.
3. MFIs must have a Board approved debt restructuring product/program for providing relief to borrowers facing repayment stress.
4. MFIs will appoint an audit committee of the Board with an independent director as chairperson.
5. MFIs must ensure transparency in the maintenance of books of accounts and reporting/ presentation and disclosure of financial statements by qualified auditor/s.
6. MFIs must put in best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).
7. MFIs must place before the Board of Directors, a compliance report indicating the extent of compliance with this Code of Conduct, specifically indicating any deviations and reasons therefore, at the end of every financial year.

V RECRUITMENT

The code covers all MFI staff.

1. As a matter of free and fair recruitment practice, there will be no restriction on hiring of staff from other MFIs by legitimate means in the public domain like general recruitment advertisements in local newspapers, web advertisements, walk-in interviews, etc.
2. Whenever an MFI recruits from another MFI, it will be mandatory to seek a reference check from the previous employer. The reference check will be sought from current

employer only after an offer is made and an offer letter is issued to the prospective employee.

3. MFIs should respond to the reference check request from another MFI within two weeks.
4. MFIs must honor a one month notice period from an outgoing employee.
5. No MFI shall recruit an employee of another MFI, irrespective of the grade/level of the employee, without the relieving letter from the previous MFI employer. An exception can however be made in instances where the previous employer (MFI) fails to respond to the reference check request within 30 days. All MFIs must provide such relieving letter to the outgoing employee in case he/she has given proper notice, handed over the charge and settled all the dues towards the MFI, except in proven cases of fraud or gross misconduct by the employee.
6. Whenever an MFI recruits from another MFI, at a level up to the Branch Manager position, the said employee shall not be assigned to the same area he/she was serving at the previous employer, for a period of 1 year.

VI CLIENT EDUCATION

1. MFIs must have a dedicated process to raise clients' awareness of the options, choices and responsibilities vis-à-vis financial products and services available.
2. New clients must be informed about the organization's policies and procedures to help them understand their rights as borrowers.
3. MFIs must ensure regular checks on client awareness and understanding of the key terms and conditions of the products/ services offered / availed. (As part of internal audit systems or through some other regular monitoring)

VII DATA SHARING

MFIs will agree to share complete client data with all RBI approved Credit Bureaus, as per the frequency of data submission prescribed by the Credit Bureaus.

VIII FEEDBACK/ GRIEVANCE REDRESSAL MECHANISM

1. MFIs must establish dedicated feedback and grievance redressal mechanisms to correct any error and handle/receive complaints speedily and efficiently.
2. MFIs must inform clients about the existence and purpose of these mechanisms and how to access them.
3. MFIs must designate at least one grievance redressal official to handle complaints and/ or note any suggestions from the clients and make his/ her contact numbers easily accessible to clients.
4. Each MFI will have an appropriate mechanism for ensuring compliance with the Code of Conduct.
5. Where complainants are not satisfied with the outcome of the investigation conducted by the concerned MFI into their complaint, they shall be notified of their right to refer the matter to the grievance redressal mechanism established by the Industry Associations.

CLIENT PROTECTION GUIDELINES FOR MICROFINANCE INSTITUTIONS (CPG)

The CPG states that all MFIs, regardless of their form:

1. **Shall** display the Client Protection Code in all branches and offices, in plain view.
2. **Shall** endeavor to provide micro finance services to all eligible clients, as per RBI guidelines.
3. **Shall** educate clients, staff, and any persons acting on their behalf on the Code of Conduct and its implementation.
4. **Shall** disclose all terms and conditions to the client for all products/services offered, prior to disbursement, in any of the following ways:
   a) Individual sanction letter
   b) Loan card
   c) Loan schedule
   d) Passbook
   e) Through Group/Centre meetings (Details can be printed on a paper and all borrowers can sign on the same as acknowledgement of their acceptance)
5. **Shall** communicate all the terms and conditions for all products/services in the official regional language or a language understood by clients.
6. **Shall** disclose the following terms:
   a) Rate of interest on a reducing balance method
   b) Processing fee
   c) Any other charges or fees howsoever described
   d) Total charges recovered for insurance coverage and risks covered
7. **Shall** communicate in writing, charges levied for all financial services rendered.
8. **Shall not** collect fee on non-credit products/services without prior declaration to the client.
9. **Shall** declare all interest and fees payable as an all-inclusive APR and equivalent monthly rate.
10. **Shall** follow RBI's guidelines with respect to interest charges and security deposit.
11. **Shall** obtain copies of relevant documents from clients, as per standard KYC norms.

    Additional documents sought must be reasonable and necessary for completing the transaction.
12. **Shall not** bundle products, except for credit life, life insurance & live-stock insurance products. The terms of insurance should be transparently conveyed to the customer and must comply with RBI & IRDA norms. Consent of the client must be taken in all cases.
13. **Shall** conduct proper due diligence to assess the need and repayment capacity of client before making a loan and must only make loans commensurate with the client's ability to repay.

14. **Shall not** be the 3rd lender to a client if the client has loans from 2 other lenders (irrespective of the source of loan).
15. **Shall not** breach the total debt limit for any client, as prescribed by the RBI or Central/ State Governments.
16. **Shall** ensure that all employees follow company guidelines for interaction with clients.
17. **Shall** ensure that all staff and persons acting for the MFI or on behalf of the MFI:
    a) Use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interaction with clients.
    b) **DO NOT** indulge in any behavior that in any manner that would suggest any kind of threat or violence to clients.
    c) **DO NOT** contact clients at odd hours, as per the RBI guidelines for loan recovery agents.
    d) **DO NOT** visit clients at inappropriate occasions such as bereavement, sickness, etc., to collect dues.
18. **Shall** provide a valid receipt (in whatever form decided by the MFI) for each and every payment received from the borrower.
19. **Shall** follow approved company procedure to deal with client default sensitively.
20. **Shall** follow the debt restructuring mechanism adopted by the MFI for borrowers under liquidity stress.
21. **Shall** keep personal client information strictly confidential.
22. **Shall** disclose client information to a third party only under the following conditions:
    a) Client has been informed about such disclosure and permission has been obtained in writing.
    b) The party in question has been authorized by the client to obtain client information from the MFI.
    c) It is legally required to do so.
    d) This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau).
23. **Shall** follow company approved process to raise clients' awareness of the options, choices, and responsibilities vis-à-vis financial products and services available.
24. **Shall** inform all new clients about the organization's policies and procedures.
25. **Shall** inform clients about the existence and purpose of feedback mechanisms and how to access them.

INSTITUTIONAL CONDUCT GUIDELINES FOR MICROFINANCE INSTITUTIONS (ICG)

The ICG states that all MFIs, regardless of their form:

1. **Shall** have an appropriate mechanism for ensuring compliance with the Code of Conduct.
2. **Shall** have appropriate policies and operating guidelines to treat clients and employees with dignity.

3. **Shall** maintain formal records of all transactions in accordance with all regulatory and statutory norms, and borrowers' acknowledgement/acceptance of terms/conditions must form a part of these records.
4. **Shall** have detailed board approved process for dealing with clients, at each stage of default.
5. **Shall not** collect shortfalls in collections from employees except in proven cases of frauds by employees.
6. **Shall** have a Board approved debt restructuring product/program for providing relief to borrowers facing repayment stress.
7. **Shall** seek a reference check from previous employer for any new hire.
8. **Shall** provide within 2 weeks the reply to the reference check correspondence for another MFI.
9. **Shall** honour a one month notice period from an outgoing employee.
10. **Shall not** recruit an employee of another MFI without the relieving letter from the previous MFI employer except where the previous employer (MFI) fails to respond to the reference check request within 30 days.
11. **Shall not** assign a new employee recruited from another MFI, to the same area he/she was serving at the previous employer, for a period of 1 year. This restriction applies to positions up to the Branch Manager level.
12. **Shall** have a dedicated process to raise the client's awareness of options, choices, rights and responsibilities as a borrower and shall conduct regular checks on client awareness and understanding of the key terms and conditions of the products/ services offered / availed.
13. **Shall** agree to share complete client data with all RBI approved Credit Bureaus, as per the frequency of data submission prescribed by the Credit Bureaus.
14. **Shall** establish dedicated feedback and grievance redressal mechanisms to correct any error and handle/receive complaints speedily and efficiently.
15. **Shall** designate an official to handle complaints and/ or note any suggestions from the clients and make his/ her contact numbers easily accessible to clients.

Annexure 7

Abstract from Sa-Dhan Advisory Set for MFI Transparency Major Disclosure Requirements

Primary recommendations:

1. The recommended disclosures provide framework on design and contents of the annual report of a microfinance institution.
2. The financial figures should be as per the audited accounts/books of account or relatable to it wherever possible.
3. All data should relate to the financial year and should be furnished for the current and for the *preceding* financial year.

Recommended Design for Annual Reports :

The annual report may comprise of the following components : Directors' report - Balance sheet - Profit and loss account -Cash flow or receipt and payment account - Notes on accounts -Key financial information -Information on clients - Board of directors – functions, profile of directors - sub-committees - Functions of key management personnel

The Directors' report would contain information on: The broad context in which the institution operates. For a microfinance institution the context of financial inclusion, underserved regions and communities would be important to be dealt with. It would be good to use national and regional data. -The institutional goals and objectives-Description of programs of the institution - Activities during the year - A detailed note on the activities of the institution – location, funds, major donors/lenders, nature of activities financed, programmatic achievements of the year -Evaluations done by rating agencies; donors and other funders-Financial effects during the year -Future outlook -Plans for the next year -Acknowledgements

Financial statements:

Balance Sheet

Profit and loss account

Cash flow or receipt and payment account

Notes to accounts -Information that cannot be a part of the main financial statement and Matters requiring elaboration / clarification may be given in notes on accounts.

Key financial information

Key performance data and ratios - Effective annualized charges (on reducing balance method) on credit to clients - Basis of institutional cost allocation – in case of an institution having programs in addition to microfinance -Basis of loan classification and loan loss norms -Loan portfolio classified into standard, substandard, doubtful and loss assets. -Funding under partnership model (managed loans)- funding institutions involved, key conditionality, amount involved, numbers of borrowers involved, percentage of managed loans to total loans made by the microfinance institutions.

Information on clients

Client profile – number of clients, clients under BPL and SC/ST, locations, livelihood patterns, clients classified by their access to various services from MFI, trainings and counseling services to clients -Insurance services to clients -Client complaint redressal information (numbers, nature and resolved)

Board of directors -Number of members, functions of the board, profile of the directors

Board sub-committees – functions and composition

Functions of key management personnel -Profile of the key management personnel

Annexure 8

Suggested Standard Loan Document for MFIs

(The template may be adapted to individual MFIs Unique Requirements)

INDIVIDUAL MEMBER -LOAN APPLICATION FORM

Name of the Centre: .... Date of application:.....................
Client ID: .... Proposal No: ....
Borrower's Name: .... Loan type:..................................
Father/ Husband Name: .... Loan cycle:................................
Village: .... Staff ID: ....
Outstanding Loans from No. of MFIs:………………......................................

I,_______________________________________ W/o, D/o____________________________ hereby request for a loan of Rs. _____________ for _____________________ (purpose). I confirm that I have undergone the Compulsory Group Training (CGT) conducted by -----MFI. for up to ------ days and after having understood and accepting all the terms and conditions in respect of sanction and repayment of Loan amount, I hereby make this loan application with my free will and consent and make the following factual declarations which are true and correct. My family income & expenses.

1. I declare that the annual house hold income of our family is Rs.__________. My family income and expenses are stated below:

No.of family Members:	Occupation:
Total business income (Monthly) :	Total Family Expenses (Monthly) :
Other income (Monthly):	Contingency Expense (monthly) :
Surplus / Deficit per month:	
Net family income per annum : Rs	

2. My current total indebtedness from all sources is Rs.____________________. I declare that I do not owe any loan/s other than mentioned here. I am not a member of any other JLG/ SHG
3. From among the three repayment options offered viz Weekly / Fortnightly/ Monthly, for my convenience with my volition I opt for repayment of this loan in equal ___________ installments.
4. I understand and agree to pay 1% of loan amount as processing fee and the applicable insurance premium, both are one time payments at the time of Disbursement of the loan, except this, the Company is not charging any amount for the sanction of the loan. I am not offering any collateral to get the loan.
5. The effective Annual Percentage rate is ____________________.
6. ______ MFI shall be entitled to sell, assign, securitize or transfer its rights and obligations under this loan agreement/ Promissory note in favour of any bank(s) or financial institution(s) or any other person(s) or agency of ----MFI's choice in whole or in part of such manner and on such terms and conditions as ---MFI may decide and the same shall conclusively be binding upon me.
7. I undertake to abide by the said terms and conditions and promise to repay to ---MFI the sanctioned/availed loan amount in ____________equal __________ installments together with applicable interest rate of --------percent (diminishing balance method) per annum.
8. The above contents are filled at my instructions and are read over and explained in the language known to me and my group members by the Center Leader/ ---------Manager and made us understand.

Signature of Borrower Signature of Center Leader Signature of Branch Manager

Annexure 9

Suggested Standard Loan Document for MFIs

(The template may be adapted to individual MFIs Unique Requirements)

SANCTION LETTER

In response to the loan application dated ____________submitted by ________________ (individual / Group) _______________________ MFI is hereby glad to sanction individual / group loan to Smt._______________________________W/o, D/o_____________________________ Resident of _______________________________________ a loan of Rs. _________________ for __________________________________ (purpose) is sanctioned by MFI. The loan amount is repayable in _________equal ___________installments along with interest at the rate of ____________ per cent (diminishing balance method) per annum. The effective Annual Percentage rate is ____________.

Terms & Condition of the Loan:

i. The applicant shall deposit an amount equivalent to 1% of the loan amount as processing fee.

ii. The borrower shall pay actual cost of insurance for covering life / cattle / ----- /

iii. The applicant shall ensure that her total indebtedness of the borrower should not exceed Rs.50, 000/-at any time of loan period.

iv. The applicant shall not be / become a member of any other Self Help Group / Joint Liability Group

v. The applicant may prepay the loan without penalty

vi. The loan is offered without collateral security/ security deposit/ margin money

vii. The Interest is charged on reducing balance basis and on outstanding loan involving no penalty for delayed Payment, if any.

viii. Only the actual cost of group insurance is recovered

ix. MFI has the option of sharing the client data with credit information bureau and MFI Associations,

x. The applicant shall use the loan for the intended income generation purpose stated in the application form.

xi. MFI ensures proper conduct of the MFI staff with the applicant and her family members during the course of loan transactions.

Sanctioned Amount: Rs. _________________

Date_______________ Signature of Branch Manager

Annexure 10

Suggested Standard Loan Document for MFIs

(The template may be adapted to individual MFIs Unique Requirements)

LOAN AGREEMENT

In pursuant of the loan sanction order dt_____________, this agreement is made in between ______MFI _____________(herein after called "Lender/ MFI ") and/ the_____________ Group Name__________________________SHG/ JLG, / Smt.________________________ W/o, D/o__________________________ Resident of____________________ (herein after called "Borrowers").

A loan of Rs. ________________ for ________________________ (purpose) is sanctioned by the Lender/ MFI to the Borrowers .

The loan amount is repayable in ________equal (monthly / weekly / fortnightly) __________ (No. of installment) along with interest at the rate of _____________per cent (diminishing balance method) per annum. The effective Annual Percentage rate is ____________.

Borrower(s) promise to repay the loan with ___ (%) rate of interest P.A in outstanding loan balance.

Borrowers jointly and severely agree to pay one time processing fees of (%) ___ and Rs.____ towards insurance premium at the time loan disbursement.

Borrowers and Lender/ MFI agree that :

xii. The borrower(s) shall deposit an amount equivalent to 1% of the loan amount as processing fee.
xiii. The borrower(s) shall pay actual cost of insurance for covering life / cattle / ______ /
xiv. The borrower(s) shall ensure that her total indebtedness of the borrower should not exceed Rs.50, 000/-at any time of loan period.
xv. The Borrower(s) shall not be / become a member(s) of any other Self Help Group / Joint Liability Group
xvi. The Borrower(s) may prepay the loan without penalty
xvii. The loan is offered without collateral security/ security deposit/ margin money
xviii. The Interest is charged on reducing balance basis and on outstanding loan involving no penalty for delayed Payment, if any.
xix. Only the actual cost of group insurance is paid .
xx. Lender/ MFI has the option of sharing the client data with credit information bureau and MFI Associations,
xxi. The Borrowers shall use the loan for the intended income generation purpose stated in the application form.
xxii. Lender/ MFI ensure proper conduct of the MFI staff with the Borrower(s) and their families during the course of loan transactions.
xxiii. Borrower(s) hereby agree jointly and severely agree that in case of the any one of their group is not able to repay the loans taken from (MFI), our SHG/JLG/ individual members will be responsible to repay the loans outstanding along with the interest as prescribed above.

Signed on this date _____________

Borrowers:

SL No.	Member's Name	Member's Code	Loan Amount	Processing fee	Insurance Premium	Signature of Member
						With revenue stamp
						With revenue stamp
						With revenue stamp
						With revenue stamp
						With revenue stamp
Total						

Signature of MFI / Branch Manager
With Seal

Demand Promissory Note

Place:________________

Rs.________________ Date:________________

On demand, I/We _________________________the undersigned, jointly and severally promise to pay to MFIs or order, the sum of Rs. _____________ (Rupees ______________________ only) along with interest at the rate of _______ percent (diminishing balance method) per annum for value received.

Witness Signature

1.____________________(Group Leader)

2.____________________(Branch Manager)

Signature of Borrower

RECEIPT

Place:_____________________ Date:_______________

I, Smt. _______________________________(Name) W/o, D/o.__________________ upon onetime payment of Rs.________________________/- towards 1% processing Fee and Rs.________________/- towards insurance cover; hereby acknowledge the receipt of sum of Rs.________________(Rupees ______________________________only) in cash from MFI_________towards the loan sanctioned to me.

Signature of Manager Signature of spouse

Annexure 11

Suggested Standard Loan Document for MFIs

(The template may be adapted to individual MFIs Unique Requirements)

Photo

PASS BOOK

Customer's Name: ______________________________

Address: ____

Group Name: __________________________Group Code: ____________________

Loan Amount	Tenure________ No. of Loan Cycle_______
Processing Fees (%) ____	
Rate of Interest (APR/ Reducing %) ___	
Insurance(Company Name) Premium Rs______________	Principal ________ Interest _______ EWI / EMI/EFI_________
Policy valid up to:________________	Sum Assured for Rs:___________________

Issued By

Name of MFI

Address

Contact No.

Terms & Condition of Organization:

xxiv. The borrower(s) shall ensure that her total indebtedness of the borrower should not exceed Rs.50, 000/-at any time of loan period.

xxv. The Borrower(s) shall not be / become a member(s) of any other Self Help Group / Joint Liability Group

xxvi. The Borrower(s) may prepay the loan without penalty

xxvii. The loan is offered without collateral security/ security deposit/ margin money

xxviii. The Interest is charged on reducing balance basis and on outstanding loan involving no penalty for delayed Payment, if any.

xxix. Lender/ MFI has the option of sharing the client data with credit information bureau and MFI Associations,

xxx. The Borrowers shall use the loan for the intended income generation purpose stated in the application form.

xxxi. Lender/ MFI ensure proper conduct of the MFI staff with the Borrower(s) and their families during the course of loan transactions.

xxxii. Borrower(s) hereby agree jointly and severely agree that in case of the any one of their group is not able to repay the loans taken from (MFI), our SHG/JLG/ individual members will be responsible to repay the loans outstanding along with the interest as prescribed above.

xxxiii. In case of any complaint / suggestions, the borrower may contact Mr. ____________ ________________________________, Grievance Officer at Branch / Head Office (Contact phone No. ________________________).

Loan Repayment schedule and Payment Record:

Instll No.	Date	Principal	Interest	EWI/ EMI	Outstanding Balance	Collected By (Sign)	Instll No.	Date	Principal	Interest	EWI/ EMI/ EFI	Outstanding Balance	Collected By (Sign)
1							27						
2							28						
3							29						
4							30						
5							31						
6							32						
7							33						
8							34						
9							35						
10							36						
11							37						
12							38						
13							39						
14							40						
15							41						
16							42						
17							43						
18							44						
19							45						
20							46						
21							47						
22							48						
23							49						
24							50						
25							51						
26							52						

Annexure 12

MFI Membership in Credit Information Bureau (CIB)

Sa-Dhan's interaction with members revealed that the MFIs main motto for becoming CIB member has been that it helps avoid operational risk. Specific advantages of becoming CIB member have been : identify and avoid multiple borrowing, Capacity to repay the loan , ability to identify the borrowers, existing indebtedness , income level of the borrower, curtain overdue in the portfolio etc.

The MFIs understood that CIB culture will enhance fair practices in the sector. RBI's directive also prompted MFIs to go in for CIB membership.

Steps in becoming Membership in Credit Bureau.

i. Searching for potential CIBs available in the market for microfinance transactions.

   The MFIs found two CIBs – High Mark and Equifax –in market

ii. Understanding services available and terms of those services. It included understanding procedures, fees -renewal charges , data extraction charges etc

iii. Entering into agreement with chosen Credit Bureau.

iv. Uploading borrowers' data and then seeking credit report on the new applicants for background verification.

Fee structure:

In general, Credit Bureaus do not charge MFIs for uploading MFI data. They charge MFIs for getting credit reports of borrowers (Credit Enquiry). The fee per enquiry has been around Rs. 5 for each enquiry, depending on the volume of credit enquiries made in a month.

Terms of CIB Agreement:

The MFIs intending to become members of CIB need to have prior understanding of the terms and conditions of agreement with a CIB. In the following template the major clauses extracted from CIB agreements in the market are given for the sake of information of the MFIs.

<u>Indicative clauses of a typical agreement between MFI & CIB*</u>

Definitions:

"Act" shall mean the Credit Information Companies (Regulation) Act, 2005, ad shall include any modifications made to it from time to time, as well as any rules and regulations contained therein, or published separately from time to time.

"Database" shall mean a database which shall, inter alia contain all or part of Credit Information supplied by or obtained from MFIs.

* Abstract from actual agreements available in the market.

Master Administration Id (Master Admin ID) means the "e-port" administrator access issued by CIB to its members. This Master Admin ID can be used to create users and administrator at the members end to enable the usage of CIB Services.

Collection of Member (MFI) Credit Information:

CIB shall request the Member for the Member Credit Information. Member shall, on receipt of notice from CIB, within such number of days as mutually agreed but in any case not to exceed 30 days, forward the Member Credit Information to CIB in mutually agreeable media (the "Data Instruments") and forward monthly updates there to on a mutually agreeable date. Member shall bear the cost of preparation and delivery of the Data Instruments to CIB. Thereafter, at intervals of thirty (30) days or any earlier time period agreed by the MFI and CIB , the MFI shall at no charge to CIB, update the Member Credit Information and provide CIB with updated Member Credit Information.

Terms & Conditions:

This Terms and Conditions will remain in full force during the initial term of agreed years from the date of Member's acceptance of this Terms and Conditions (the "Effective Date"). Thereafter, subject to the payment by Member of dues, if any, including annual fees, it shall automatically renew for additional renewal terms of agreed years each, unless a written notice of intent not to renew is provided by one Party to the other Party at least thirty (30) days prior to the end of the then current term.

Updating of Credit Information:

The Member shall comply with the provisions of the CIC Laws in connection with furnishing the Member Credit Information to CIB including as regards accuracy, completeness and timeliness and updating of such Member Credit Information.

Intellectual Property:

The Member warrants that the Member Credit Information does not and shall not infringe the Intellectual Property Rights or any other rights of any third parties. Each Party represents and warrants that it has the requisite power and authority to execute, deliver and perform its obligations under this terms and conditions.

Indemnity:

Notwithstanding anything contained herein above, the Member will defend, indemnify and hold harmless CIB and its officers, directors, employees and agents from and against all costs (including legal costs and attorneys' fees), claims, damages, demands and expenses arising out of or in connection with:

Any claim by a third party for Member's breach of this Terms and conditions or violation of the CIC Laws including, without limitation, penalties levied against CIB pursuant to the provisions of the Act;

Any claim that arises from CIB's use of the Member Credit Information caused by errors, inaccuracies or omissions in the Member Credit Information provided by the Member, including claims arising from such use infringing any intellectual property right of a third party.

Notwithstanding anything contained herein above, CIB will defend, indemnify and hold harmless the Member and its officers, directors, employees and agents from and against all costs (including legal costs and attorneys' fees), claims, damages, demands and expenses arising out of or in connection with:

Any claim by a third party for CIB's breach of this Terms and conditions or violation of the CIC Laws including, without limitation, penalties levied against Member pursuant to the provisions of the Act;

Any claim that arises from Member's use of CIB Materials caused by errors , inaccuracies or omissions in reporting such Credit Information by CIB. It is expressly clarified that CIB shall not be liable for errors, inaccuracies or omissions in the Credit Information provided by other Members of CIB.

Termination

In the event that CIB or the Member is wound up, becomes insolvent, makes a general assignment for the benefit of creditors, suffers or permits the appointment of a receiver for its business or assets, then the affected Party shall give the other Party written notice following that event and the non-affected Party shall be entitled to terminate this Membership by issuing 30 days written notice.

Dispute Resolution:

If any dispute arises between CIB and Member under this terms and conditions, for which no remedy has been provided under the Act, such disputes shall be settled by conciliation or arbitration as provided in section 18 of the Act, after reasonable/mutual efforts by the parties to resolve the disputes among themselves.

Annexure 13

Proxy Measures of Poverty & Income

Cashpor – Housing Index: Parameters and Score

Parameter	Measure	Score
Height of the wall and Materials used	>5 feet and made of brick	4
	>8 feet and made of mud	2
	> Less than 8 feet but more than 4 feet Mud	1
Materials of Roof	Concrete /Pucca /Patia /New Tiles/GI Sheet	2
	Old Tiles/GI Sheet	1
	Thatch/ Straw/ Plastic/Leaves	0
Maximum Score		6
Poverty Status	Non Poor	5 and more
	Moderately Poor	3-4
	Very Poor	2 and less

Progress Out of Poverty Index : Parameters and Score

	Indicator	Value	Points
1	1. How many people aged 0 to 17 are in the household?	Five or more Five or more Four Three Tow One None	0 4 8 13 20 27
2	What is the household's Principal occupation ?	Labourers Labourers (agricultural, Plantation, other farm), hunters, tobacco preparers and tobacco product makers, and other labourers B. Others C..Professionals, technicians, clerks, administrators, managers, executives, directors, supervisors and teachers	0 8 14

3	Is the residence all pucca (burnt bricks, stone, cement, concrete, jack board/cement plastered reeds, timber, tiles, galvanized tin or asbestos Cement sheets)?	A. No B. Yes	0 4
4	What is the household's primary source of energy for cooking?	A. Fire wood and chips, charcoal, or none B. Others C. LPG	0 5 17
5	Does the household own a television?	A. No B. Yes	0
6	Does the household own a bicycle, scooter, or motor cycle?	A. No B. Yes	0 5
7	Does the household own an almirah / dressing table	A. No B. Yes	0 3
8	Does the household own a sewing machine?	A. Yes B. No	0 6
9	How many pressure cookers or pressure pans does the household own?	A. None B. One C. Two or more	0 6 9
10	How many electric fans does the household own?	A. None B. One C. Two or More	0 5 9

Annexure 14

Certificate No._______________

Chartered Accountant's Certificate - A Specimen
To Whomsoever It May Concern

(1) Purpose and Use

This certificate is being issued to _________________________ (a mico finance institution registered under_______________and carrying out micro finance operations in __________ state/s)as required by it in accordance with RBI's circular No. RBI/2010-11/505 RPCD.CO. Plan 66/04.09.01/2010-11 dated May 3, 2011, for the specific use by banks and financial institutions extending or intending to extend credit facilities to ______________on and after 1st April 2011 for on-lending to members of its JLG/SHG and as required in the aforementioned RBI circular for ensuring that ______________ is in full compliance with regulations mentioned therein in carrying out its microfinance operations.

(2) Period covered

In accordance with aforementioned circular, this certificate is being issued for _____ quarter of the financial year _____ covering the period _______ and ending on _______________.

(3) Extent and Coverage of verification

(A) During the course of our professional verification and examination procedures and processes for the purpose of issuing this certificate, we checked, scrutinized, examined and verified followings of _______________, obtained explanations and representations from its management, to the extent which to the best of our professional knowledge, belief and judgment were required and were sufficient and adequate for the purpose of issuing this certificate.

(1) Existing and applicable micro credit policies, standard micro credit operating processes and procedures, related internal control systems as contained in Operations Manual, internal circulars and office orders, etc. issued periodically and practiced and followed by _____________ during the period covered under this certificate;

(2) Records of different loan products of _______________with features relating to pricing, purpose , repayment frequency, moratorium period, tenure etc. disbursed to its clients during the period covered under this certificate and related loan utilization check methodology and procedures followed by ______________ for the period under this certificate;

(3) Existing and applicable clients' identification processes and procedures, methodology and procedure adopted and followed by the ______________ for assessment of annual household income and indebtedness of its borrowers related to the period covered under this certificate;

(4) Existing and applicable methodology, processes and criteria followed by the _________ related to and during the period covered under this certificate for identification and ascertainment of Borrowers' households and their classification in to rural and non-rural (semi-urban and urban) based on their habitats;

(5) List and Electronic Records of existing borrowers of _______________ as of ____________ relevant and required for our purpose and related financial records of

borrowers who have settled their loan either or before maturity during the period covered under this certificate.

(6) Loan Application Forms, KYC documents, annual household income and indebtedness information and declarations obtained from borrowers related to and during the period covered under this certificate;

(7) Loan documents executed by its borrowers with ____________________ in connection with their loans disbursed during the period related to and covered under this certificate;

(8) Passbooks issued to Borrowers;

(9) Internal MIS systems, procedures and related records required for our purpose;

(10) Financial Statements as of ____________________ , Trial Balances, Books of accounts, related financial and accounting records, documents and vouchers, related internal control processes and procedures for the period related to and covered under this certificate;

(11) Loan agreements executed by ______________ with Banks and Financial Institutions extending credit facilities to it;

(B) During the course of our professional verification and examination process and procedures for the purpose of issuing this certificate, we also conducted survey, examination and physical verification of borrowers of ____________________ and their households, identified and selected random sample basis, in order to assess and procedures, which to the best of our professional knowledge, belief and judgment were necessary, adequate and sufficient for the purpose of this certificate.

(4) Certificate

On the basis of aforementioned professional examination and verification process and procedures, we hereby certify as follows in respect of ____________.

(1) As of ________________, _____ % of total assets of ______________-(excluding cash balances with banks and financial institutions , government securities and money market instruments) are in the nature of "Qualifying Assets" as defined in para 3 of RBI's circulars No. RBI/2010-11/505 RPCD. CO. Plan 66 /04.09.01/2010-11 dated May 3, 2011 as being the loans disbursed which satisfy the following criteria-

I. The loan has been extended to the borrowers whose annual households income does not exceed Rs. 60,000/- in case of rural areas and Rs 1,20,000/- in case of non- rural areas;

ii. The loan size does not exceed Rs 35,000/- for first cycle and Rs 50,000/- for subsequent cycles:

iii. The total indebtedness of each of the ____________ borrower does not exceed Rs 50,000/-

iv. The loan tenure is not less than 24 months when the loan size is above Rs 15,000/- with borrower having the right to prepay without penalty.

v. The __________ loan repayable by weekly or fortnightly or monthly installments as per the Borrowers choice.

(2) As of ______________ , ______________% of the total loan portfolio of _____________ comprise of the loans extended to borrowers for income generating activities only.

(3) For the period covered under this certificate, the margin of ___________ as computed in accordance with para 4 of aforementioned RBI circular is _______________% , as per the details given herein below:

S.N.	Details	
1	Average fortnightly balance of outstanding borrowers (Rs)	----------------------
2	Interest expense for the quarter (Rs)	----------------------
3	Interest cost of borrowings (Annual (2 as % of 3)	-------------%
4	Average fortnightly balance of outstanding loan portfolio (Rs)	--------------------
5	Interest income for the quarter (Rs)	-------------------
6	Interest income on average loan portfolio (5 as % of 4) (Annualized)	-----------%
7	Margin (6 - 3)	-----------%
	(average fortnightly balance is average of the outstanding at the end of each fortnight during the quarter and outstanding at the end of the quarter)	

(4) During the period covered under this certificate, the maximum interest (for weekly payment option) on loan products offered by the ____________ the ____________ is __________% and the upfront fee (inclusive of service tax) is not more than 1% of the loan amount disbursed.

(5) During the period covered under this certificate, __________ has charged and collected from its borrowers only actual cost of insurance, i.e. actual cost of the group insurance for the life of the borrowers and spouse, and as per extend IRDA guidelines, ______________ has not collected any administrative charges from borrowers;

(6) The _______________ has not charged and collected any penalty for delayed payment of loan installments falling due.

(7) The __________________ has neither taken any collateral security nor any other margin/ security deposit from its borrowers in connection with loans extended to such borrowers.

As confirmed above, during the period covered under this certificate, _______________ has fully compiled with all the guidelines of the RBI as required in aforementioned circular RBI/2010 -11/505 RPCD.CO. Plan 66/04.09.01/2010-11 dated May 3, 2011.

FOR _______________ & Co,

CHARTERED ACCOUNTANTS

M.No.___________

Date:

Place:

Sa-Dhan Regional Workshops on RBI Regulation & Its Compliance
Places : Lucknow, Bangalore & Chennai

Bangalore Workshop–Inauguration by Mr. P.K. Saha, SIDBI

Lucknow Workshop – Bankers Share Experience

Resource Person speaks in Bangalore

RBI & SIDBI Panel on RBI Regulation

Chennai: MFI-CEO & Chartered Accountant narrates CA's Role in RBI Compliance Certification

Bankers' Panel in Bangalore

Lucknow: RBI Officer & Resource person on the Panel

Lucknow Workshop – Briefing the Context

Supported by :

SIDBI

भारतीय लघु उद्योग विकास बैंक

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

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